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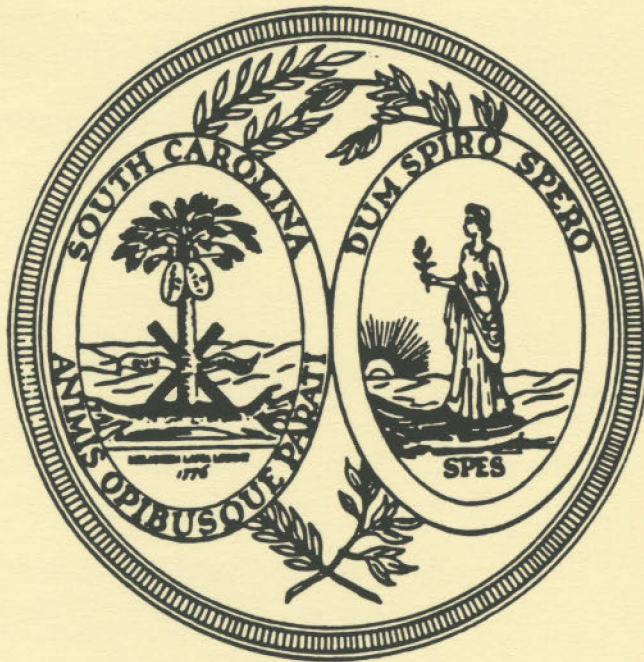
South Carolina Legislative Audit Council

LAC

## Report to the General Assembly

January 1990

# Management Review of the South Carolina Adjutant General's Office



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**Report to the General Assembly**

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**Management Review  
of the South Carolina  
Adjutant General's  
Office**



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# Executive Summary

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## Major Findings

The South Carolina National Guard, administered by the Adjutant General, is a primarily federal entity with substantial economic impact in the state. Federal expenditures for the guard in South Carolina for FY 87-88 have been estimated by the Adjutant General's Office at more than \$136 million, while state expenditures were \$4.6 million. The South Carolina National Guard has ranked high in performance on federal evaluation measures. For three of the four quarters we reviewed, the National Guard Bureau rated South Carolina's Army Guard first among 50 states, the District of Columbia and three territories (see p. 64).

We reviewed only the management of *state* resources by the South Carolina Adjutant General's Office and identified many areas where improvement is needed. While state resources are a small portion of total National Guard resources, their effective management is, nonetheless, important.

The financial management decisions and procedures of the Adjutant General's Office have not always been in accord with good business practice. The agency's management of personnel has not always guaranteed that the most qualified staff have been employed. Also, the agency's armory maintenance program, responsible for more than 1.3 million square feet in the state's 81 armories, should be improved. In addition, we recommend that some state benefits provided guard members be re-examined.

Major findings in specific areas are summarized below. Some items of lesser significance were communicated in a separate letter to agency management.

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## Financial Management

We identified problems in the area of financial management which include the following:

- The lease purchase of the Adjutant General's Office headquarters building will cost the state approximately \$3.7 million more than if the building had been funded with capital improvement bonds (see p. 6). Also, the state could improve its control over the construction of lease purchase buildings by requiring state engineer approval of building plans (see p. 8).
- Problems were identified with the Adjutant General's management of new construction. Necessary approvals were not obtained for the construction of a bachelor officers' quarters at McEntire Air Guard base and the empty shell of the building was constructed without sufficient funds approved for completion (see p. 10). Also, in federal-state armory construction projects, the state may have funded more than its share when changes were required (see p. 13).
- The Adjutant General's Office subleases its headquarters parking lot for University of South Carolina football games without Budget and Control Board approval. The proceeds have been used to establish the "HQ Morale Support Fund," spent in part for employee parties and receptions (see p. 15).

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## Personnel Management

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We identified problems with the management of state personnel which include the following:

- The Adjutant General's Office has not adequately ensured that the most qualified personnel are employed. Eleven (17%) of 66 new hires from 1986 to April 1989 did not meet the minimum training and experience requirements for their positions (see p. 25).
- An appearance of a conflict of interest arose in a situation where a state employee's job was reclassified to a position for which he did not have the minimum qualifications (see p. 26). The employee's spouse is the agency's state personnel director, the official responsible for screening to assure that state employees are qualified.



- Because there are inadequate controls to ensure accurate leave reporting by state employees who are also in the National Guard, some employees have been paid by both the state and federal government for the same days (see p. 28).

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## Armory Maintenance

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Our review identified problems with the Adjutant General's Office armory maintenance program:

- The Adjutant General's Office could improve its management of maintenance projects. Written procedures for establishing priorities are needed because low priority projects were funded over more urgent needs (see p. 36). Also, small maintenance projects were not completed in a timely fashion, averaging almost 16 months (see p. 38).
- The agency needs better management information for its maintenance program. Initial project cost estimates varied widely from actual costs, and the agency could not provide complete and accurate expenditure information on maintenance projects (see pp. 39, 42).
- Recurring maintenance needs are funded with capital improvement bonds, when, according to state law, they should be treated as operating expenses. Nearly 75% of the armory maintenance projects funded with FY 86-87 bonds were less than the Budget and Control Board's project minimum of \$25,000 (see p. 43).

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## Benefits

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We found problems with two state benefits offered to guard members:

- Unless the funding of the state pension is changed to comply with principles of sound pension financing, the benefit will become a significant liability for the state and could cost \$3.5 million annually by 2004 (see p. 50). Also, the use of

state resources for a pension, when guard members also earn a federal pension, could be questioned.

- The state provides workers' compensation benefits that overlap with federal benefits, and there are inadequate controls to ensure that injured guard members do not receive double benefits (see p. 53). Also, there is an unpaid balance of more than \$2.4 million for premiums to cover workers' compensation insurance for National and State Guard members (see p. 55).

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## Comparative Issues

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At the request of the General Assembly, we obtained and reviewed comparative information regarding southeastern states' National Guard resources and South Carolina guard performance on federal evaluation measures:

- Survey results indicate that state resources for the National Guard in South Carolina are from 8% to 16% below the southeastern average (see p. 60).
- The South Carolina Army and Air National Guards have been highly rated during federal performance reviews. For three of four quarters reviewed, the South Carolina Army Guard ranked first of the 50 states on the Army Guard's composite performance profile (see p. 64).

# Introduction and Background

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## Audit Objectives

The Audit Council was requested by members of the General Assembly to conduct a management review of the South Carolina Adjutant General's Office, including the Emergency Preparedness Division. The Council was also asked to compare the resources of South Carolina's National Guard to guard resources in neighboring states.

Management of state resources, rather than evaluation of program effectiveness, was the focus of the review. The primary objective was to examine management practices in the following areas: (1) accounting, budgeting and reporting; (2) personnel management; and (3) allocation of resources, including property management. A secondary objective of the review was to obtain comparative information, including a comparison of South Carolina National Guard resources with guard resources in other southeastern states, and South Carolina guard performance on federal evaluation measures.

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## Scope and Methodology

Our review of the Adjutant General's Office focused on the management and use of *state* resources and excluded specific review of *federal* resource management. Federal accounting, budgeting, personnel and property management were not within the scope of the audit. Federal expenditures have been estimated at more than \$136 million for FY 87-88 and state expenditures were more than \$4 million. However, federal funds expended as part of the state budget (\$6.1 million in FY 87-88) were considered state resources and included in the audit's scope. These federal funds include salaries of federally funded state employees, federal emergency management grants, and contributions to operating expenses.

In conducting the review, we interviewed officials at the Adjutant General's Office and other state agencies, National Guard and state government officials in other states, and federal government officials. An employee survey was distributed to

state employees of the Adjutant General's Office. Documents maintained by the Adjutant General's Office and other state and federal agencies were reviewed. Comparative data obtained by survey from other states was not verified in all cases, but was reported as survey data.

Specific sampling methodology is reported in individual findings, as applicable. In some findings, we used judgmental sampling which involves the use of nonstatistical sampling to perform tests; items may be selected for audit based on factors such as significance of the dollar amounts involved, or the auditor's judgment that some items are of special interest.

Adjutant General's Office management of state resources was reviewed primarily from FY 86-87 through FY 87-88. This report was prepared in accordance with generally accepted government auditing standards.

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## Internal Controls Review

A specific review of all internal management controls was not an objective of this audit. However, some agency internal controls were evaluated in conjunction with audit objectives. Controls were assessed by reviewing system features and documentation, as well as limited compliance testing.

Significant internal control areas assessed included the following: accounting and reporting controls related to (1) Federal Emergency Management Agency grants, (2) armory operations funds, and (3) the use of capital improvement bond funds; and management controls related to (1) the expenditure of maintenance funds, (2) hiring and promotion practices, and (3) employee leave reporting.

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## Background

The Adjutant General administers the Army and Air National Guard of South Carolina, the United States Property and Fiscal Office for South Carolina, the Emergency Preparedness Division, and the South Carolina State Guard.

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## National Guard--Mission and Economic Impact

The South Carolina National Guard is part of the primary reserve forces of the United States Army and Air Force. The guard is unique among the various reserve forces in that it has a federal mission and a state mission. Its federal mission is to provide trained and effective units for the Army and Air Force in the event of war or national emergency. In its state role, the National Guard provides military support to civil authorities in disasters and civil disturbances.

The federal mission of the National Guard has received increased importance under the total force policy of the Department of Defense. Under this policy, which came with the end of the draft and the creation of the all volunteer force, reservists will be the initial and primary source of personnel to augment the active forces in military emergencies. There has been increased dependence on the reserve components in operational plans. The Army National Guard and Reserve provide almost 50% of the Army's personnel strength.

The guard is a significant employer in the state's economy. As of September 1988, there were 13,902 Army Guard members and 1,419 Air Guard members in South Carolina for a total of 15,321. This represents approximately 1% of the state's population between 18 and 44 (see p. 60). The activities and mission of these part-time soldiers were supported by 1,246 full-time federal employees of the Army Guard and 319 full-time federal employees of the Air Guard in the state.

The Adjutant General's Office estimates that federal expenditures for the guard in South Carolina for federal FY 87-88 were more than \$136 million. This estimate includes federal funds from a variety of sources including the federal National Guard Bureau, the active Army and Air Force, and the Veterans Administration. The estimate of federal expenditures includes federal tuition assistance and retirement benefits for guard members. Much of the federal funding is not directly administered by the Adjutant General's Office.



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## State Resources

State resources comprise a small portion of total guard resources. State expenditures for the South Carolina National Guard were an average of 5.2% of total state and federal National Guard Bureau expenditures for FY 86-87 and FY 87-88. State general funds spent for the Adjutant General's Office, including Emergency Preparedness and the State Guard, have risen from \$3.2 million for FY 84-85 to an estimated \$5.1 million for FY 88-89 (see Table 1.1). In accord with the scope of the audit, the budget table includes only those federal funds expended as part of the state budget.

The Adjutant General's Office had 193 permanent state positions as of July 1989. More than half of the positions are either 75% or 100% federally funded. State employees are widely distributed throughout the agency (see Appendix A) and perform a variety of functions. Areas where substantial numbers of state employees are found include the facilities management office (26), the Leesburg training facility (32), the Emergency Preparedness Division (38) and McEntire Air Guard base, where there are public safety officers (22), fire fighters (24), and a civil engineering section (18).

**Chapter 1**  
**Introduction and Background**

**Table 1.1: South Carolina  
Adjutant General's Office  
State Revenues and Expenditures  
FY 84-85 Through FY 88-89**

	<b>FY 84-85</b>	<b>FY 85-86</b>	<b>FY 86-87</b>	<b>FY 87-88</b>	<b>FY 88-89<sup>a</sup></b>
<b>Revenues</b>					
State General Fund	\$3,234,257	\$3,564,574	\$3,870,429	\$4,093,107	\$5,058,090
Federal Funds <sup>b</sup>	3,998,332	4,027,202	4,433,085	6,064,201	5,648,346
Other Funds	181,405	244,111	293,074	371,062	740,115
<b>Total</b>	<b>\$7,413,994</b>	<b>\$7,835,887</b>	<b>\$8,596,588</b>	<b>\$10,528,370</b>	<b>\$11,446,551</b>
<b>Expenditures</b>					
Administration	\$1,426,347	\$1,628,702	\$1,779,966	\$2,743,525	\$2,760,214
Military Personnel	134,587	145,928	171,349	194,537	155,943
Operations and Training	37,758	36,972	42,829	41,339	43,562
Buildings and Grounds	413,935	424,282	435,427	416,488	391,140
Training Sites	744,691	740,604	957,390	1,125,088	1,298,365
Army Contract Support	544,957	577,095	721,193	1,205,271	938,603
McEntire ANG Base	1,040,718	1,184,518	1,218,005	1,500,068	1,763,920
Emergency Preparedness	2,116,917	1,940,910	1,973,669	1,859,242	2,300,541
State Guard <sup>c</sup>	.	.	.	68,560	67,682
Employee Benefits	895,284	1,050,976	1,176,760	1,374,252	1,726,581
Nonrecurring Appropriations	58,800	105,900	120,000	.	.
<b>Total</b>	<b>\$7,413,994</b>	<b>\$7,835,887</b>	<b>\$8,596,588</b>	<b>\$10,528,370</b>	<b>\$11,446,551</b>

<sup>a</sup>Estimated.

<sup>b</sup>Includes only federal funds expended as part of the state budget.

<sup>c</sup>State Guard became part of Adjutant General's Office July 1, 1987.

Source: South Carolina Budget Documents, Budget and Control Board.

# Financial Management

## Headquarters Building Lease Purchase

The lease purchase of the Adjutant General's Office headquarters building will cost the state approximately \$3.7 million more than if the building had been financed with capital improvement bonds. According to information received from the State Treasurer's Office, the total cost for financing the building with bonds would have been \$7,627,074, compared to approximately \$11,332,880 for the lease purchase agreement. Reasons for the higher lease purchase cost include property taxes from which state-owned buildings are exempt, and a developer's fee (\$557,000), as well as a longer period of time over which the payments were financed.

**Table 2.1: Cost Comparison for the Headquarters Building**

Type of Financing	Cost <sup>a</sup>	Property Taxes	Total Cost
Lease Purchase	\$9,734,040 <sup>b</sup>	\$1,598,839	\$11,332,879
Bonds	7,627,074 <sup>c</sup>	•	7,627,074

<sup>a</sup>Insurance, operating and maintenance costs which would be paid with either method of financing were not included in these estimates.

<sup>b</sup>The lease purchase cost was derived by multiplying the annual lease payment, \$486,702, by the 20-year term of the lease agreement.

<sup>c</sup>The State Treasurer's Office provided a debt service schedule estimating the project's cost if it were financed with capital improvement bonds, based on a \$4,889,150 cost for the building at 7% interest over 15 years.

Source: Budget and Control Board records and the State Treasurer's Office.

Agency officials cited the urgent need for new space as the reason to acquire the building sooner than the use of bonds would permit. The 54,000 square foot building, built to house 225 to 275 employees, had 171 employees working there, as of July 1989.

The building, which had received all necessary Budget and Control Board and legislative approvals as a bond-financed project through the Senate Finance Committee's review, was removed from the bond bill after it became apparent that a lease purchase arrangement would likely be approved. As the minutes of the Budget and Control Board meeting in which the lease purchase was approved show, the vice-chairman of the Joint Bond Review Committee stated that, had the project remained in the bond bill, bond funds would have been

in August 1986, four months before the lease purchase agreement was signed.

According to an official at the state engineer's office, a building of this size could be completed 18 months to 2 years from the date bond funds become available. Therefore, based on this estimate, with the lease purchase arrangement, the Adjutant General's Office occupied the building 2 to 8 months sooner than it could have if bonds had been used.

Two recent state government studies recommended the use of lease purchase only in very limited circumstances. The Joint Bond Review Committee with the Budget and Control Board, and the Governor's Lease Review Committee found that lease purchase arrangements cost the state more than projects financed with bonds. Also, the studies state that lease purchase is a form of debt, and it is a way of avoiding mandated debt limits. However, there is disagreement about this issue. In an October 1988 ruling, the State Supreme Court found that lease purchase agreements entered into by school districts do not constitute general obligation debt.

In lease purchase arrangements, no laws or regulations govern the state's construction oversight role (see p. 8). In practice, the General Assembly or its committees approve most lease purchase projects through the appropriation process. As a result of financing the Adjutant General's Office headquarters building through lease purchase, the state will spend approximately \$3.7 million more than necessary. Also, the state has less control over the building because, for the first 20 years, it does not belong to the state. Furthermore, office furniture totalling \$122,047, including desks, chairs and wastebaskets, was financed over 20 years as part of the lease purchase arrangement. Furniture is not normally financed over long periods due to its short useful life.

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## Recommendation

- 1 The General Assembly may wish to consider funding construction projects with capital improvement bonds whenever possible.

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## State Oversight of Lease Purchase

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We reviewed state oversight of the headquarters building's planning and construction, and found that the state could improve its control over lease purchase arrangements. Unlike the approval process required for other types of state-owned buildings, there is no requirement that the state engineer oversee the construction of buildings acquired through lease purchase arrangements.

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## Construction Oversight

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The lease purchase agreement, which was between the developer and the Budget and Control Board, specified that final building plans were to be completed before construction began. The agreement also required that the state sign the building plans to indicate approval. However, the agreement does not specify which agency or official is responsible for signing the plans.

There is no evidence that the plans were signed, as required. Several state officials were involved in the lease purchase and construction of the building. These included officials from the Adjutant General's Office and two sections of the Budget and Control Board, the property management division and the state engineer's office. However, none claimed responsibility for approving plans before construction began as the agreement required. As a result, there is a lack of accountability for the decisions made regarding the plans. Furthermore, contrary to the agreement, construction began approximately four months before the plans were final.

During the planning and construction of state-financed buildings, the procurement code requires state engineer approval for the architect, the plans and specifications, and any change orders. Inspections are also performed. However, no statutes or regulations address the state's construction oversight role with lease purchase projects.

Because the state engineer's office became involved in the project after construction began, it did not review the preliminary plans, nor inspect any of the early construction. Therefore, no one responsible for representing the state's interests is able to verify that early construction met building



code requirements. Because there is no evidence that the state ever approved the plans when specified by the lease agreement, it is unclear that the plans were satisfactory to the state.

Also, because construction began before plans were final, there was a greater risk that changes which could result in time delays would have to be made. The state engineer's office did request changes in the partially constructed building to meet building code requirements, including adding appropriate fire walls for the auditorium and increasing the number of fire zones. These changes could have been avoided if the plans had been available to the state engineer sooner.

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## Recommendation

- 2 For future lease purchase agreements, the Budget and Control Board may wish to consider promulgating regulations requiring, from the start of projects, state engineer approval of plans and specifications, as well as state engineer oversight during construction.

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## Proposal Specifications

The Division of General Services (DGS) did not hire an architectural and engineering firm to write specifications for the Adjutant General's Office headquarters building proposal. In its March 11, 1986 meeting, the Budget and Control Board directed General Services to hire an architectural and engineering firm, at an estimated cost of \$10,000, to develop specifications for the project. These specifications, to be included in the project's request for proposals, were to list the project's requirements for interested bidders.

Instead of hiring an architectural and engineering firm for \$10,000, a DGS official wrote a three-page proposal at no additional cost. DGS officials have since stated that the proposal was not detailed enough and would have been better if written by an architect. For example, because the proposal specified water fountains instead of water coolers, the agency had to

replace all of the fountains after it discovered that the water dispensed was lukewarm. Also, the proposal required the developer to provide two flagpoles in front of the building, without stating their size. However, when the Adjutant General's Office learned that the developer was not willing to provide the size the agency wanted, the Adjutant General's Office decided to pay for one large flagpole, for approximately \$6,000, from its own budget.

A General Services official stated that, although there is no written policy, it is now standard procedure to have an architect write lease purchase proposals and specifications which ensure detailed and professional building requirements.

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## Recommendation

- 3 The Division of General Services should develop and implement a policy requiring architects to write all future lease purchase proposals and specifications.

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## McEntire Bachelor Officers' Quarters

The Audit Council was requested to review the status of a 1987 appropriation of \$20,000 for the construction of a bachelor officers' quarters at McEntire Air National Guard Base. The following problems were noted:

- A contract was negotiated and executed for the construction of the facility without the written approval of the state engineer's office.
- The agency constructed the empty shell of the building without sufficient funds approved for completion. The project remained unusable for nearly a year while the Adjutant General's Office sought funds to complete it.

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## Background

The Adjutant General's Office received approval to use \$50,000 of state appropriated funds in 1986 to construct a building at McEntire Air Base to house helicopter flight crews. An additional \$20,000 was appropriated for the project in 1987. The total cost for the building, completed in January 1989, was \$134,952. The agency funded the \$64,952 difference with capital improvement bonds. A general contractor built the outer structure, but the interior walls, electrical, plumbing and mechanical systems were installed by state employees.

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## Contract Negotiation

The Office of the Adjutant General negotiated a contract for the construction of the building without the approval of the state engineer's office. Sealed bids for the project were solicited on two occasions. After neither yielded a bid within the project's budget, the project officer negotiated with the low bidder to delete certain items from the specifications so that the budget could be met. According to an official at the Adjutant General's Office, the project officer was not familiar with the procurement code pertaining to the negotiation of construction contracts.

Section 11-35-3020(c) of the South Carolina Code of Laws governs the negotiation of construction contracts after unsuccessful sealed bidding. Construction contracts may be negotiated when it is determined in writing by the state engineer that time or other circumstances will not permit the solicitation of new bids.

The Adjutant General's Office did not ask the state engineer to make a determination as to whether this situation warranted negotiation. According to the state engineer, approval to negotiate this contract probably would not have been given since the time factor was not critical.

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## Contract Execution

In March 1987, the Office of the Adjutant General contracted for the construction of the McEntire bachelor officers' quarters without the written approval of the state engineer. The *Manual for Planning and Execution of State Permanent Improvements*, as

authorized by §11-35-3240, requires agencies to obtain the state engineer's written approval before awarding a construction contract. The state engineer's office reviews plans and specifications to ensure that building code requirements are met.

The state engineer was notified of the contract ten months after the contract was signed, when a newly assigned project officer discovered the omission. Budget and Control Board Regulation 19-445.2015 requires a letter of ratification from the agency head whenever unauthorized procurements are discovered. As of May 1989, no letter of ratification for this contract had been sent to the state engineer.

By not obtaining the state engineer's approval for the contract, the Adjutant General's Office risked building a structure which would not meet building code requirements.

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## Incremental Construction

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The Adjutant General's Office constructed the McEntire bachelor officers' quarters as an "empty shell" with the intention of completing it later as money became available. The shell contained no electrical wiring, heating and air conditioning system, insulation, and plumbing fixtures. At the time the shell was built, the Adjutant General's Office had no funds approved to complete it. The shell stood untouched for nearly a year while the Adjutant General's Office sought funds to finish the project with its own materials and labor.

The state engineer stated that incremental construction is unacceptable unless the agency shows that sufficient funds are available to complete the project. He stated that, in this case, he would not have approved this method of construction because the Adjutant General's Office did not have sufficient funds to complete it.

If the Adjutant General's Office had initially requested sufficient funds to complete the building, the facility could have been in service at least one year sooner, and may have cost less to build. By building the project incrementally, the agency risked not having funds to finish the building, in which case the shell would have been unusable as a quarters facility.

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## Recommendations

- 4 The Adjutant General's Office should follow the South Carolina Consolidated Procurement Code as it pertains to contracting for construction.
- 5 The Adjutant General's Office should submit a letter of ratification to the state engineer's office concerning the McEntire bachelor officers' quarters contract.
- 6 The Adjutant General's Office should plan and secure funding for construction projects before beginning construction.

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## Construction Contract Change Orders

The Adjutant General's Office has not actively pursued federal funding of change orders and extra cost items on joint federal and state construction contracts. As a result, the state may have paid more than its share on some projects. New armory construction is funded up to 75% by the federal National Guard Bureau; the exact amount varies depending on armory specifications. The state pays for items which do not meet National Guard Bureau funding criteria. The Adjutant General's Office has not submitted change orders to the National Guard Bureau for approval.

We reviewed the construction and accounting records of the Mullins, Moncks Corner, and Clinton armories, to assess the accuracy of Adjutant General's Office accounting and reporting of capital improvement bond fund expenditures. These projects were selected by judgmental sample from the six armories constructed since 1986. No major problems were noted in the accounting and reporting process.

However, analysis of the Mullins armory construction records revealed that the construction contract included five change orders which increased the contract cost by a total of \$31,500. The Adjutant General's Office did not request additional federal funding for these changes. The state paid the entire amount,



although as much as \$23,600 may have qualified for federal funding under National Guard Bureau criteria.

Originally, the contractor for the Moncks Corner armory was to install the armory's water and sewer system for \$61,000, \$41,480 (68%) of which was to be paid by the National Guard Bureau. However, the town of Moncks Corner required that its local public works commission install the water and sewer system for \$100,000. After obtaining legal advice, the Adjutant General's Office agreed to the change and the construction contract, originally for \$974,000, was reduced with a change order. Berkeley County paid \$64,000 and the Adjutant General's Office paid the remaining \$36,000 with the project's state funds. The Adjutant General's Office did not pursue reimbursement for the federal share of the water and sewer system, even though the National Guard Bureau originally was to pay for 68% of it.

The Clinton Armory construction contract included one small change order paid for entirely with state funds.

Section 11-9-125 of the South Carolina Code of Laws requires agencies to use available federal funds before spending state funds. National Guard Regulation 415-5 authorizes federal funding of change orders and supplemental agreements.

Because additional federal funds have not been requested for construction contract change orders, the state may have paid more than its share for new armories. The state may also have incurred unnecessary interest on the capital improvement bonds used to finance the state's portion of construction costs.

No formal procedure within the Adjutant General's Office ensures that federal funding of change orders is requested. An agency official stated that their first priority is to make sure that the projects are finished with available funds, and that the source of the funds is secondary.

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## Recommendation

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- 7 The Adjutant General's Office should develop and implement procedures to ensure that federal funding is requested on all construction contract change orders.
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## Subleasing of Parking Spaces

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Since fall 1988, the Adjutant General's Office has allowed a group of guard employees to sublease the rear parking lot at guard headquarters to patrons of University of South Carolina home football games. This group established the "HQ morale support fund" with the proceeds from the parking space rentals. The Council identified two problems with this practice: the property is leased to the Budget and Control Board which had not approved the parking subleases, and the proceeds were used as perquisites for guard employees.

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## Budget and Control Board Approval

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The National Guard headquarters building and the surrounding property, including the parking lot spaces subleased during football games, is leased by the State Budget and Control Board and not by the Adjutant General's Office. Without approval from the Budget and Control Board, the Adjutant General's Office has been allowing the employee group to sublease the parking lot.

Subleasing parking spaces is considered a real property transaction, under §1-11-65 of the South Carolina Code of Laws:

All transactions involving real property, made for or by any governmental bodies, excluding political subdivisions of the State, must be approved and recorded with the State Budget and Control Board unless a governmental body is expressly exempted by the Budget and Control Board.

The Adjutant General's Office did not obtain this approval, and is therefore subleasing property that is leased to another state agency.

## Use of Funds

The employee group which subleases the parking lot charges patrons \$50 per space for seasonal parking at University of South Carolina home football games. In 1988, the group collected \$8,600 by subleasing 172 spaces. As of June 1989, 179 spaces had been rented for the 1989 football season, for a total of \$8,950. These funds have been deposited in a private bank account listed as the "HQ morale support fund." The employee group paid the Columbia armory operations fund \$1,400 for use of the parking lot. The group spent most of the remaining funds on parties and flowers, as shown in the following table.

**Table 2.2: HQ Morale Support  
Fund Expenditures,  
May 1988--June 1989**

Type of Expenditure	Amount
Retirement/Receptions	\$643.82
Flowers	247.86
Coffee/Donuts-VIP Briefings	49.15
Office Christmas Party	1,205.93
Office Picnic	1,915.83
Parking Passes	81.90
Columbia Armory	1,400.00
Other Expenditures	201.98
<b>Total</b>	<b>\$5,746.47</b>

Source: HQ morale support fund June 1989 financial statement.

Since the HQ morale support fund was established in May 1988, \$18,346 has been deposited into the account, \$17,550 of which are proceeds from the leasing of parking spaces. Funds spent during this same period of time (May 1988--June 1989) total \$5,746. The account balance as of June 1989 was \$12,600.

Several state laws and regulations pertain to the guard's use of the parking funds. Section 8-13-410 of the South Carolina Code of Laws prohibits the use of official position or office for financial gain. It states:

No public official or public employee shall use his official position or office to obtain financial gain for himself.

Also, Adjutant General Regulation 37-2 states:

Funds received by custodians (other than federal funds), regardless of source, will be treated as public money . . . .

It also prohibits funds (such as rental funds) from being used for flowers, parties, or entertainment.

Providing such benefit is contrary to the state personnel system which seeks to ensure equal treatment for all state employees. The FY 88-89 Appropriation Act states, in part, that:

Salaries paid to officers and employees of the State, including its several boards, commissions, and institutions, shall be in full for all services rendered, and no perquisites of office or of employment shall be allowed in addition thereto, but such perquisites, commodities, services or other benefits shall be charged for at the prevailing local value and without the purpose or effect of increasing the compensation of said officer or employee.

In March 1989, the Adjutant General apprised the comptroller general, the state auditor and the state treasurer of the sublease of parking spaces at guard headquarters and how the funds are used. The Adjutant General's Office received no written response.

The result of the parking lot lease arrangement has been that a significant source of revenue is generated to benefit the employees at the Adjutant General's headquarters site. This benefit is not provided for other state employees and is contrary to state laws and regulations.

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## Recommendation

- 8 The Adjutant General's Office should discontinue subleasing its headquarters building parking spaces to USC football patrons. If the Budget and Control Board wishes to sublease parking spaces at National Guard headquarters, the proceeds should be deposited in the state's general fund.

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## Emergency Preparedness Division

The Adjutant General's Office Division of Emergency Preparedness (EPD), created in 1979, is responsible for the protection of South Carolinians from the effects of natural and man-made disasters, including war. Of its \$2.5 million FY 88-89 budget, \$1.7 million (71%) were federal funds, \$350,000 (14%) were state appropriated funds, and \$360,000 (15%) were "other" funds provided primarily by power companies for "fixed nuclear facilities" planning.

Our review of EPD was limited to financial record keeping and reporting, particularly relative to the federal assistance received from the Federal Emergency Management Administration. In line with the scope of the audit (see p. 1), no attempt was made to evaluate the operational efficiency of the various programs administered by EPD. It was found that EPD was properly reporting the financial activities of the various federally-funded grants.

The largest federal grant received by the Emergency Preparedness Division is emergency management assistance (EMA); EPD received \$914,000 from the Federal Emergency Management Administration in EMA funds for FY 88-89, \$609,000 (67%) of which was allocated to the counties for the administration of their emergency management offices.

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### Allocations to Counties: Follow-up to 1981 Audit Report

In its 1981 review, the Audit Council reported that the Emergency Preparedness Division (EPD) did not have adequate criteria for allocating federal funds among counties for local emergency preparedness offices. County allocations were based primarily on historical budget and expenditure data; county allocations are still based primarily on such data.

The 1981 report suggested that EPD could consider factors such as county population, potential for disaster, and the level of program development, in calculating each county's share of the available EMA funds. In a 1989 survey of nine southeastern states, Florida and Alabama were found to have allocation systems based on formal rankings of relevant criteria.



The Florida system involves the use of seven factors, three of which measure the population of the county relative to the state population and the number of people who would require evacuation given a natural disaster. Two of the seven factors rate the counties on the population-at-risk in the case of a nuclear civil disaster. The sixth factor reflects an evaluation of each county's emergency management program; each county's program is evaluated based on factors disseminated by the division annually. The seventh factor awards extra points to counties whose border forms part of Florida's coastline.

South Carolina's use of historical cost data alone in determining the allocation of funds to the counties does not address the relative needs of each county's programs, nor does it accommodate those counties which have recently established programs. For example, Edgefield County is the most recent (1985) program entrant. It received \$1,623 in FY 88-89, while the average allocation for counties with similar populations and risk categories was \$7,700.

The likelihood of a particular county experiencing nuclear disaster, and the number of people affected, are not addressed in the current system. Charleston County, in the highest risk category, received less in FY 88-89 than Spartanburg County (\$33,431 vs. \$36,357), in the lowest risk category and with 27% fewer people. Three counties in high risk areas for nuclear disaster received within \$3,000 of one another in EMA funds (\$9,314, \$10,924, and \$12,928), and yet one county has more than twice the population of the other two combined. Inconsistencies such as those cited above are more likely to occur when standard criteria are not applied in determining county allocations. A system such as Florida's would increase the accountability and rationality of the program. Not only would it address population and risk factors, but also, an evaluative component would help provide an incentive for good performance.

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## Recommendation

- 9 The Emergency Preparedness Division should consider implementing an allocation system for emergency management assistance funds based on factors such as disaster risk, population and performance.
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## Armory Operations Funds

The Adjutant General's Office maintains individual bank accounts for most of the units in the South Carolina Army and Air National Guards. These accounts, known as unit or armory operations funds, are provided for the payment of "armory expenses, and certain other expenses pertaining to the welfare of unit personnel." Fund revenues come from various sources as shown in the table below.

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Table 2.3: Armory Operations  
Fund Revenues FY 85-86 Through  
FY 87-88

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State Appropriations	45%
Armory Rental	28%
Federal Telephone Reimbursements	13%
City & County Contributions	11%
Other Collections	3%
<b>Total</b>	<b>100%</b>

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Source: Adjutant General's Office financial statements and accounting records.

According to Adjutant General Regulation (AGR) 37-2, the operations funds are to be considered and spent as state funds.

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## Unspent Funds

National Guard units have retained unspent balances in armory operations funds. The Adjutant General's Office has not used these surplus funds to address armory maintenance needs. As of June 30, 1988 the combined balance in the 92 active unit and armory operations fund accounts was \$170,981. One unit had an account balance in excess of \$23,000, and five accounts had balances in excess of \$5,000.

These balances have accumulated in part because the full state appropriation for unit maintenance was deposited into the unit funds. However, in 1984, 1986 and 1988, unit operating expenses did not require the full amount.

A proviso in the appropriation acts for FY 84-85 through FY 87-88 allows appropriated funds to be distributed to the units at "the direction of the Adjutant General." These funds are considered officially "spent" when the transfer is made. AGR 37-2 also allows the unit commanders to spend locally generated funds for improvements and additional conveniences.

Good management practice dictates that state appropriations to agencies be used in a timely manner to meet agency needs. Generally, unspent appropriations for ordinary expenses of the state government lapse to the state general fund on July 31.

The Adjutant General's Office has armories with maintenance needs which have not been met because funds for repair have not been available (see p. 36). At the same time, other units have large balances of cash which could be used to meet those needs.

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## State Auditor's Recommendation

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The Adjutant General's Office has not corrected a material weakness in its internal accounting system which was cited by the State Auditor in a January 1985 management letter. The auditor's report pointed out the agency's lack of budgetary control over the armory operations funds. The report suggested that the Adjutant General's Office consolidate the armory fund budgets with the agency's operating budget and establish procedures to monitor the armory fund budgets through the agency's accounting system. Although the Adjutant General stated that procedures to correct this would be implemented, they had not been as of June 1989.

The operating budget of the Adjutant General's Office is recorded in the Statewide Accounting and Reporting System (STARS) to control the expenditure of funds. The Comptroller General's Office monitors the budget so that budget line items are not overspent. Armory operations fund budgets are not recorded in STARS, or in the Adjutant General's Office

accounting system. Rather, the armory operations fund accounting records are maintained at the individual National Guard unit locations. These records are combined with the Adjutant General's Office accounts only for financial statement purposes, and only at the fiscal year end. The Governmental Accounting Standards Board states that the accounting system should provide the basis for appropriate budgetary control. For the accounting system to provide this control, information from the armory operations funds must be processed on an on-going basis, throughout the fiscal year.

In FY 86-87, armory operations fund expenditures for contractual services exceeded the budgeted amount by \$109,786, and expenditures for fixed charges and contributions exceeded the budget by \$12,577. These amounts were offset by \$181,000 retained from the prior year. Because these funds are not monitored and controlled through the accounting system, similar excesses could occur in future years. Additionally, §11-9-100 of the South Carolina Code of Laws authorizes the Budget and Control Board to withhold a portion of the appropriated funds of any state agency which fails to correct a material weakness in its internal accounting system as cited in a State Auditor's management letter.

The former Adjutant General's Office budget and finance manager stated that this recommendation could not be implemented because the agency's computer system could not handle the additional volume of information. This problem was remedied in FY 88-89 with the purchase of additional computer hardware. An official at the Adjutant General's Office stated that they still intend to implement this recommendation.

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## **Federal Telephone Reimbursements**

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From FY 85-86 through FY 87-88, the Adjutant General's Office received nearly \$500,000 of federal telephone expense reimbursement, none of which has been returned to the state general fund. When funds are available, the federal National Guard Bureau reimburses South Carolina National Guard units for the expense of telephone service, and up to \$50 per unit per month in long distance charges incurred by federal employees.

The individual units pay their telephone bills, and submit requests for reimbursement to the United States Property and Fiscal Office (USPFO) in Columbia. The telephone bills and other operating expenses are paid from the armory operations fund accounts. Reimbursements are sent from the USPFO directly to the units.

Provisos in the FY 85-86, FY 86-87 and FY 87-88 appropriation acts, as well as §11-9-125 of the South Carolina Code of Laws (1988), require federal reimbursements of state funds to be returned to the state general fund. However, another proviso in the appropriation acts since FY 86-87 allows the Adjutant General's Office to retain and spend certain "other collections" of National Guard units. It is not clear what "other collections" include. However, even if federal telephone reimbursements are considered to be "other collections," it is not apparent which proviso controls in this situation.

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## Recommendations

- 10 The Adjutant General's Office should manage the distribution of state funds for armory operations and maintenance to ensure they are effectively used to meet priority needs.
- 11 The Adjutant General's Office should consolidate the budgets for the armory operations funds with its operating budget. Procedures should be implemented to monitor the units' compliance with the budget through the agency's regular accounting system.
- 12 The General Assembly may wish to consider clarifying its intent regarding the disposition of federal telephone reimbursements.

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## Accounting Procedures Manual

No policy and procedures manual has been written for the accounting department of the Office of the Adjutant General. Good management practice dictates that policies and procedures be clearly communicated. Such a manual should address these and other specific areas:

- Account coding of transactions.
- Preparation of purchase orders and payment vouchers.
- The allocation of salaries and fringe benefits to the various departments and fund accounts.
- End of period closing instructions for the general ledger.
- Fund transfers and indirect cost calculations.
- Verifying, summarizing and recording of information from the armory operations fund files.

The accounting department has many effective control procedures in place. However, because these procedures are not written, there is a risk that they could be discontinued if experienced personnel are lost. Without a manual, training of new staff takes longer and requires more senior staff time.

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## Recommendation

- 13 The Adjutant General's Office should develop and implement a comprehensive accounting procedures manual.

# Personnel Management

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## Hiring Practices

The Adjutant General's Office has hired state employees who did not meet the minimum training and experience requirements for the positions for which they were hired. We examined the personnel files of all 66 state employees hired from January 1986 to April 1989 who still held those positions. Of the 66 new hires, 11 (17%) did not meet the minimum training and experience requirements. Five additional applications did not contain sufficient information to determine the employees' qualifications. We also reviewed all promotions and reclassifications for the same three-year period. In three of the 58 files examined, the employees lacked the minimum training and experience requirements.

According to State Personnel Regulations, Section VII-19-707.02, all employees appointed to classified state jobs must meet the minimum training and experience requirements developed by the Division of Human Resource Management. These requirements specify the minimum standards that would ensure an applicant's ability to perform the duties if hired.

The Adjutant General's Office has not ensured that all new employees meet the minimum qualifications for their positions. The agency may have rejected applicants who were qualified while hiring applicants who were not. This may contribute to a perception that factors other than qualifications determine who is hired.

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## Recommendation

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- 14 All applications for state positions in the Adjutant General's Office should be screened in the personnel office to ensure that candidates meet the minimum training and experience requirements for the position.

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## Conflict of Interest

An appearance of a conflict of interest exists in a situation in which an Adjutant General's Office state employee's job was reclassified to a position for which he did not meet the minimum training and experience requirements. The employee's spouse is the agency's state personnel director, the official responsible for screening to assure that state employees are qualified for their positions.

The employee whose job was reclassified is a supervisor who reports to a federal civil service employee, who, in turn, reports to the deputy adjutant general. In 1986, the employee's job was reclassified to a higher grade, and his salary was raised, although he did not meet the minimum training and experience requirements for the new position. Except for the deputy adjutant general's position, this position is a higher grade than any other state position in the agency, including that of the director of the Emergency Preparedness Division. The employee earns approximately 20% more than his federal supervisor.

Documentation in the employee's personnel file did not indicate that appropriate steps were taken to ensure that a conflict of interest did not exist. Although the deputy adjutant general, as well as the agency's personnel director, signed the request for reclassification of the position, no documentation in agency files justified the need for the reclassification or that a waiver of training and experience requirements was requested. There was no documentation in the employee's file that anyone besides his spouse determined the amount of his raises, either when his job was reclassified in 1986, or in 1987, when the position was raised to a higher grade.

State personnel regulations require that all employees meet the minimum training and experience requirements for the positions to which they are appointed. Within the Adjutant General's Office, the personnel director is responsible for assuring that employees have these qualifications. State employees should avoid even the appearance of a conflict of interest, defined in state personnel regulations as:



... any action or situation in which an individual's personal or financial interest or that of a member of his/her household might conflict with the public interest.

According to an official at the Division of Human Resource Management (DHRM), because the agency's state personnel director and her spouse were both employed prior to July 1984, their employment at the same agency is not prohibited by state nepotism provisions. Regulations currently in effect prohibit the employment of spouses in the same agency if one supervises the other, or:

... such employment would result in an employee occupying a position having influence over a covered relative's employment, promotion, salary administration or other related management or personnel matters. . . .

DHRM encourages agencies to look at the issue of influence in making employment decisions. A personnel director at another state agency whose spouse is also employed by that agency stated that he does not participate in any personnel actions involving his spouse. His supervisor handles everything that involves her without his knowledge or input.

By allowing the appearance of a conflict of interest to exist, the Adjutant General's Office may have contributed to a negative public perception of agency personnel management. Also, employing persons in positions for which they do not have minimum qualifications may result in less effective agency performance.

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## Recommendation

- 15 The state personnel director at the Adjutant General's Office should not continue to handle personnel matters involving her spouse, and all personnel actions in his file should be documented to show approval by an appropriate supervisor.

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## Leave Reporting Controls

The Adjutant General's Office has not implemented adequate controls to ensure accurate leave reporting by state employees who are also members of the National Guard. A review of records indicated that, contrary to state law and Adjutant General's Office policy, some employees have received unauthorized dual compensation; that is, they have been paid by both the state and federal governments for the same days in excess of allowed military leave.

In addition to weekend drill and 15-day annual training, some members of the National Guard perform additional guard duty, including training, for which they are paid by the federal government. State employees of the Adjutant General's Office performed as many as 73 and 88 days guard duty in addition to weekend drill in federal FY 87-88.

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## Former Employee

We identified a substantial record of unauthorized dual compensation for a retired state employee of the Adjutant General's Office. The employee did not complete time and attendance reports or turn in any leave from his state job for the nearly eight years of his employment. However, he received pay from the federal government for many days of guard duty for which he did not take leave from his state job.

During the course of the audit, as required by General Accounting Office auditing standards, the Audit Council reported this situation to the Adjutant General. The Adjutant General requested and received reimbursement in the amount of \$21,000, which was remitted to the State Treasurer.

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## Current Employees

We reviewed the federal FY 87-88 time and attendance reports and guard duty records of the 37 state employees who had more than 15 days guard duty, excluding weekend drill. The records indicated that 14 (38%) of these employees received unauthorized dual compensation. This occurred in one of the following two ways:

- Ten (27%) of the 37 employees were paid by the federal government for guard duty and did not take any type of leave from their state jobs. The number of days involved ranged from 1 to 6.
- Four (11%) of the 37 employees took more military leave from their state jobs than the 15 days they were entitled to, ranging from 2 to 7 extra days. An additional employee had used 31 days of military leave in 1987.

According to state personnel regulations, state employees are entitled to military leave with pay for a period not to exceed 15 days in a year. It is Adjutant General's Office policy to give employees the option of charging either annual leave or leave without pay for time in excess of 15 calendar days.

Controls could be implemented to ensure accurate leave reporting. The Adjutant General's Office uses an automated leave reporting system that could be programmed to note when an employee's military leave for the year is all used. Also, both the Army and the Air National Guards produce duty printouts which could be reconciled with time and attendance reports.

Leave reporting is the responsibility of individuals and their supervisors at the Adjutant General's Office. The automated leave system monitors employee use of annual and sick leave, but not military leave.

Without adequate controls to prevent errors and resolve discrepancies in leave reporting, employees might continue to receive unauthorized dual compensation. The state has paid for services it has not received, which could have been more than \$3,800 for federal FY 87-88. Also, some employees have received undeserved compensation without penalty.

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## Recommendations

- 16 The Adjutant General's Office should program its leave reporting system to monitor the use of military leave by state employees.

- 17 The Adjutant General's Office should use guard duty reports to implement controls for accurate leave reporting. Regular reconciliation of duty reports with time and attendance reports or regular audits of leave records using duty reports should be considered.

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## Other Personnel Issues

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We identified additional problems with personnel management concerning temporary personnel management, affirmative action, and McEntire fire fighter classifications.

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### Management of Temporary Employees

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A temporary employee is one employed on a full- or part-time basis for a period not to exceed six months, and who has no continuing status. We reviewed the management of state temporary employees at the Adjutant General's office and noted the following problems:

- The personnel files of the 27 temporary employees with the longest terms of employment for the period June 1986 through April 1989 were reviewed. Six (22%) of these employees were employed for longer than six months without a break in employment.
- The Adjutant General's Office did not have applications listing qualifications for 8 (30%) of the 27 temporary employees reviewed. Three (16%) of the 19 employees who did complete applications for their positions did not meet the minimum training and experience requirements for the positions for which they were hired.
- The Adjutant General's Office has paid individuals with purchase orders instead of through the agency's payroll. Based on discussions with officials at the Comptroller General's Office and the federal Social Security Administration, six of these individuals paid since September 1988 may have been, in fact, state temporary employees.

According to state personnel regulations, temporary employment, for which employees do not get personnel benefits such as leave and insurance, is not to exceed six months in duration. Also, employees hired for classified positions must meet the minimum training and experience requirements. Employers are required to pay social security, withhold taxes and report the income of employees to the Internal Revenue Service.

Extending temporary status for longer than six months circumvents the intent of temporary employment. Also, it is not fair to the employees to keep them in a status where they have no benefits. Inadequate procedures to document and monitor the qualifications of employees could contribute to a perception that criteria other than qualifications are used in hiring. The use of purchase orders to pay employees is not in compliance with federal requirements, and could be seen as a way to conceal employment or circumvent the intent of appropriated funds.

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## Recommendations

- 18 The Adjutant General's Office should implement procedures to ensure that state temporary employees are employed for no longer than six months without a break in service.
- 19 The Adjutant General's Office should ensure that state temporary employees meet the minimum training and experience requirements for the positions for which they are hired.
- 20 The Adjutant General's Office should ensure that all state temporary employees are paid through the agency's payroll.

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## Affirmative Action

The Adjutant General's Office has reported minimal progress toward affirmative action goals. The Human Affairs Commission report of February 1989 ranked the Adjutant General's Office 74th out of 75 agencies in percentage (36.4%)

of goal attainment. This was a decline from the February 1988 report in which they ranked 70th out of 74. Hiring in executive, professional, and technician categories has been primarily responsible for low goal attainment. In these three categories, 15 of the 16 hiring opportunities from October 1986 to September 1988 were filled by white males.

Section 1-13-110 of the South Carolina Code of Laws requires that each state agency submit an affirmative action plan to the Human Affairs Commission. Affirmative action plans are designed to involve agencies in working to eliminate discrimination in employment and to aid in attaining a more representative work force. Also, according to State Personnel Regulation 19-704.02, each classified state agency must have an employee appraisal system that meets the criteria developed by the Division of Human Resource Management. This criteria specifies that all management/supervisory employees are to be evaluated on how well they promote equal opportunity in employment. Of the 12 Adjutant General's Office employees identified by the state personnel director as supervisors, four (33%) had appraisals that included promoting equal opportunity.

The lack of progress in affirmative action goals may leave the agency vulnerable to charges that they have not ensured equal opportunity in employment.

Although the Adjutant General's Office advertised vacancies at South Carolina's minority colleges and universities, no other efforts were made to recruit and employ minority candidates during the period reviewed. There was no documented evidence that the agency stressed the importance of affirmative action to supervisors and managers.

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## Recommendations

- 21 The Adjutant General's Office should more actively recruit minority applicants.
- 22 Whenever a hiring official receives applications for a vacant position, the agency's affirmative action goals should be attached.

- 23 All supervisors of state employees in the Adjutant General's Office should be evaluated in their performance appraisals on promoting equal opportunity.
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## Fire Fighter Classifications

The classifications used for the 24 state employees at McEntire fire department do not accurately describe the jobs performed. Since position classifications determine the salary ranges and the required qualifications, it is important that jobs are appropriately classified.

The fire department, staffed by 24 state employees, is headed by a fire chief who is a federal civil service employee. The two assistant chiefs are classified as administrative assistants. The class specifications for this job do not describe fire fighting duties, and the minimum training and experience requirements have nothing to do with fire fighting. This classification is normally used as an office support position.

The two station captains are classified as fire fighting equipment specialists. This classification describes a job for employees who are in charge of maintaining equipment at the South Carolina Fire Academy. The duties of the station captains include supervision of the station in the absence of the chief or assistant chief. However, the minimum training and experience requirements do not pertain to either supervision or fire fighting.

The 20 fire fighters are classified as fire fighter IIs. This class was designed to be a supervisory position. There is no evidence that all the fire fighters are serving in a supervisory capacity.

Examples of the kind of work and level of responsibility normally assigned to jobs are included in each class specification. The minimum training and experience requirements reflect the combination of education and experience that would enable a person to successfully perform the duties and responsibilities of the position. According to State Personnel Regulation 701.04, all positions in a class shall be sufficiently similar as to kind of work, level of responsibility, and qualification requirements to warrant like treatment.

Existing class specifications do not adequately describe the McEntire fire fighters' job responsibilities and requirements.

Salaries are based on position classification. If classifications are inaccurate, it is likely that the compensation rates are as well. Minimum qualifications for a job are based on the duties and tasks performed. If these requirements do not reflect the necessary qualifications, it is less likely that the most qualified personnel will be hired.

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## Recommendation

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- 24 The Adjutant General's Office should ensure that the agency's state fire fighter positions are appropriately classified.

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### Fair Labor Standards Act

The Adjutant General's Office has not documented that the fire fighters' schedule and overtime compensation complies with the Fair Labor Standards Act (FLSA). The 24 state employees who are fire fighters at McEntire fire department work a 72-hour week and are regularly paid overtime. An agency official stated the Adjutant General's Office pays half of the hourly wage for overtime hours.

According to a United States Department of Labor bulletin, a method of calculating overtime called the "fluctuating work week" allows payment of half the regular rate of pay for overtime hours. This interpretation is the only guideline that would allow the agency to pay half the regular rate instead of the general overtime pay standard, 1½ times the regular rate.

The Division of Human Resource Management (DHRM) requires that all agencies using a fluctuating work week policy obtain approval from its employee relations section. However, the Adjutant General's Office does not have documentation on the development of its overtime policies and has not received approval from DHRM.



The lack of written policy on overtime compensation for fire fighting staff may give an appearance of noncompliance with FLSA requirements.

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## Recommendation

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- 25 The state personnel officer should work with the Division of Human Resource Management to develop written policies for the administration of overtime at McEntire fire department.

# Armory Maintenance and Operations

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## Maintenance Project Management

One of the largest responsibilities of the Adjutant General's Office is to maintain the state's 81 armories, totalling 1.3 million square feet. We reviewed the agency's management of maintenance projects and found several problems.

- The Adjutant General's Office has no written procedures for establishing maintenance priorities.
- Small maintenance projects are not completed in a timely fashion.
- The Adjutant General's Office estimating of project costs needs improvement.
- The agency has not developed adequate management information on maintenance expenditures.

The following sections further explain these findings.

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## Planning Procedures

The Adjutant General's Office has no written procedures for establishing maintenance project priorities. Furthermore, the Adjutant General's Office has not followed its unwritten policy on maintenance priorities, in that they have funded low priority projects over more urgent needs.

An agency official stated that although they have no written procedures, decisions are based on whether the health, welfare and safety of the people using the building would be affected if the projects were not funded. This would include roof repairs and renovations to heating systems to keep them operational. However, the Adjutant General's Office has not funded \$2.3 million in urgent maintenance needs identified by the agency since 1983. One official stated that there are 19 boiler systems over 30 years old which have never been upgraded, a potentially dangerous situation.

In addition, we found cases in which lower priority projects were funded over such high priority projects. For example, a drill hall was air conditioned for \$71,000, even though drill halls at 77 of

the 81 armories are not air conditioned. Furthermore, the Adjutant General's Office has not allocated funding to replace the same armory's roof, a high priority need estimated at \$60,000. Also, maintenance funds were spent on other projects for such low priority items as carpet, bulletin boards and plants.

The Adjutant General's Office in Mississippi has established an armory maintenance board to set priorities on projects. The board is composed of facilities maintenance personnel as well as representatives from each troop command. Louisiana's Adjutant General's Office also has a written procedure for determining how project priorities are set. Georgia, like Mississippi, has an armory planning board that meets periodically to establish priorities for new projects and expansions.

Without a formal priority procedure, there is less assurance that the most urgent armory maintenance projects are being funded. As indicated by the review of projects, funds have not always been spent on the highest priorities. Written priorities and a more formal maintenance project selection procedure, such as a review board, would help ensure that limited maintenance funds are spent where they are most needed.

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## Recommendations

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- 26 The Adjutant General's Office should promulgate regulations detailing the criteria by which armory maintenance priorities are determined.
  - 27 The Adjutant General's Office should establish an armory review board composed of regional commanders as well as facilities management personnel to oversee maintenance project priorities.

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## Small Projects

The management of small maintenance projects needs improvement in two areas. First, projects are not completed in a timely fashion. Second, instead of buying the materials in advance in bulk, projects are "piecemealed" with many small purchases made over the length of the project.

We analyzed the timeliness of 20 judgmentally selected small projects whose accounts were opened from February 1987 through June 1988, with funds deposited in those accounts ranging from \$1,517 to \$71,900, and averaging \$21,000. Of the 20, 16 (75%) were still open as of May 1989. The average length of time that all projects were open was almost 16 months, with 9 projects open 20 months or more. The shortest project was closed out in ten months. Furthermore, as of May 1989, three projects opened a year or more showed no activity whatsoever. Another project, a \$30,000 roof renovation in Seneca, which was opened in May 1988, had no activity for 9 months, and then was cancelled.

Repairs to the Bishopville armory's roof and heating system began in October 1987. By May 1989, one and one-half years later, the \$64,500 project was not closed out. During that time, employees made 105 purchases of materials and services, 102 of which were for less than \$2,000. Nine separate purchases were made from one supply company.

Both Clemson University and the Department of Corrections, agencies with many small maintenance projects, plan the materials needed for small projects and usually buy them in advance. A Clemson official stated that for maintenance projects less than \$200,000, a work order planning section, with a draftsman and an estimator, plans the projects which are usually completed within a few weeks. The Department of Corrections has an estimator who plans their small projects and lists the materials needed.

When projects are not completed in a timely manner, the Adjutant General's Office risks further damage to armories. It also brings into question whether the projects were prioritized correctly if the Adjutant General's Office can afford to wait months before starting a funded project. Also, when projects

are piecemealed, the agency might lose discounts resulting from buying in bulk.

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## Recommendations

- 28 The Adjutant General's Office should ensure that small maintenance projects are planned and completed in a timely manner.
  - 29 Whenever possible, the agency should purchase supplies and materials in bulk at the start of projects.
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## Project Cost Estimates

The Adjutant General's Office estimating of maintenance and construction project costs needs improvement. From the planning stage through construction, many project costs vary widely from estimates. When accurate cost estimates are not available, the General Assembly is placed in a position of overfunding or underfunding projects. It also causes the Adjutant General's Office to transfer money between projects to make up for shortfalls.

The following table illustrates the variations in estimates and actual costs reported to the state engineer's office for 8 judgmentally selected projects of 48 projects listed on the state engineer's April 1989 project update list. Of the 48 projects, 28 (58%), including 22 on-going projects which had no budget revisions, were within 10% above or below their original budgets. Sixteen (33%) ranged between 11% and 100% above or below their original budgets. The remaining 4 projects' revised budgets exceeded their original budgets by more than 100%.

Chapter 4  
Armory Maintenance and Operations

Table 4.1: Project Cost Estimates

Project	Budget	Revised Budget	Percent
Orangeburg Expansion	\$500,000	\$445,000	-11
Rock Hill Expansion	500,000	369,329	-26
Mt. Pleasant Expansion	478,126	319,049	-33
Leesburg Training Site	158,000	210,700	+33
North Charleston Fuel Facility	116,800	176,686	+51
Clark Hill Classroom	100,000	135,249	+35
Clover Roof Renovation	44,000	11,000	-75
Transportation Motor Pool	20,000	93,904	+369

Source: State engineer's project update list, April 1989.

In May 1987 and February 1988, the Adjutant General's Office asked the Budget and Control Board to approve major cost reductions and cancellations in existing projects to allow the creation of other maintenance projects. The following table shows *some* of the changes submitted in May 1987. We judgmentally selected 12 of the 29 projects listed on the May 1987 request.

Table 4.2: Project Cancellations and Major Revisions

Armory Improvements	Approved Amount	Change	Revised Amount
Bishopville	\$36,000	\$21,500	\$14,500
Chesterfield	38,000	-10,800	27,200
Barnwell	23,000	-15,300	7,700
Lancaster	38,000	-25,000	13,000
McCormick	18,000	-13,000	5,000
Anderson	18,000	-18,000	•
Lake City	19,000	-19,000	•
Ridgeland	•	34,500	34,500
Belton	•	25,200	25,200
Seneca	•	18,000	18,000
Clinton	•	7,200	7,200
Chester	•	1,600	1,600

Source: Budget and Control Board, property management division records.

Also, as indicated in the previous table, there are discrepancies between which projects are planned and which are actually done. Of 33 armory projects proposed for FY 86-87, only 9 (27%) were actually completed. The funds appropriated for FY 86-87 were spent on 22 other projects not listed on the original proposal.

The Adjutant General's Office, with two million square feet to maintain, has no registered engineers or architects on staff to plan and estimate project costs. The job description for the director of engineering and planning requires a bachelor's degree in engineering. However, the person holding this position does not have the degree.

Other state agencies with large numbers of buildings to maintain have registered engineers or architects on staff to plan project costs. For example, Clemson University, with approximately five million square feet to maintain, has three registered engineers and three registered architects to plan and estimate their projects. Clemson also has a work order planning section which plans and estimates costs for smaller maintenance projects. Staff in this section include an estimator and a draftsman.

The Department of Corrections, with four million square feet to maintain, also has registered engineers to plan and estimate project costs. Furthermore, for small maintenance projects, the department often hires architectural and engineering firms to draw the specifications, including a list of supplies and materials and their costs.

Without adequate planning and estimating of construction and maintenance projects, the Adjutant General's Office cannot ensure that construction and maintenance needs are appropriately met. Also, the General Assembly and the Budget and Control Board have not been given sound information on which to base their funding decisions.

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## Recommendations

- 30 The Adjutant General's Office should require that there be at least one registered engineer or architect on staff to plan and estimate construction projects.
- 31 The Adjutant General's Office should also ensure that the director of engineering has a bachelor's degree in engineering as required.

- 32 The Adjutant General's Office should consider hiring architectural and engineering firms to estimate costs for larger projects before funds are requested for those projects.
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## Expenditure Information

The facilities management office of the Adjutant General's Office has not developed adequate management information on maintenance expenditures. The office uses five sources of funds for maintenance of guard facilities: state appropriations, federal funds, armory operations funds, capital improvement bonds, and funds from cities and counties. We requested, several times, total expenditure information by funding source for three fiscal years. However, the information provided by the Adjutant General's Office was incomplete, and some of it was found to be inaccurate when compared to maintenance project files.

The facilities management office was unable to provide information on funds spent from armory operations funds and from city and county contributions. Also, some reported maintenance project expenditures were inaccurate. We compared financial records to the expenditure amounts reported by the facilities management office for FY 86-87 capital improvement bond (CIB) funds. FY 86-87 was the most recent year in which bonds were approved for maintenance. Of 31 reported projects totalling \$500,000, we found discrepancies in reported expenditures for 9 (29%) of them. Also, more importantly, four projects totalling \$75,000 in expenditures were not reported, and financial records indicated that two CIB funded projects, totalling \$52,000, reported by the facilities management office as complete did not, in fact, exist.

Given that Adjutant General's Office officials have represented armory maintenance as one of the agency's major problems, good management information on maintenance expenditures is necessary. Expenditure information should be used in planning for maintenance needs and deciding the maintenance allotment to the armories.

Without accurate and complete expenditure information by source, the Adjutant General's Office lacks adequate



management information to plan its maintenance program. Funding levels cannot be compared to need to measure progress made in reducing the maintenance backlog. Also, the General Assembly is hampered in assessing the adequacy of the various funding sources and the Adjutant General's Office management of those funds.

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## Recommendations

- 33 The facilities management office should maintain accurate and complete maintenance expenditure records by funding source.
- 34 The office should also develop and maintain an adequate management information system on maintenance needs and expenditures to be used in the budget process.

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## Use of Capital Improvement Bonds

The Adjutant General's Office funds recurring maintenance needs through capital improvement bonds (CIB), when, according to state law, small maintenance projects should be treated as operating expenses. In the 1986 Bond Act, the Adjutant General's Office received \$500,000 for armory improvements, most of which was used for small maintenance projects. Of 31 armory maintenance projects funded with the FY 86-87 bonds, 23 (74%) were less than the Budget and Control Board's permanent improvement project minimum of \$25,000. Small projects funded with capital improvement bonds include minor roof and heating system repairs. The Adjutant General's Office has also spent CIB funds for bulletin boards, plants and flagpole repair.

Section 11-11-430 of the South Carolina Code of Laws states:

In order to continue to maintain the fiscal integrity of the State, the proceeds of the state bonds must not be used to fund operating expenses of state government and such proceeds must be used only for capital improvements.

In a July 1987 letter to the Joint Bond Review Committee, a Budget and Control Board official noted the Adjutant General's Office practice of using CIB funds for "mini maintenance projects" stating:

... it is recommended that all parties involved in the budget request/appropriation process recognize that these types of needs are recurring and, in the future, they should be funded through the agency's operating budget.

Of nine other southeastern states surveyed, only Tennessee allows the use of capital improvement bonds for maintenance projects. However, Tennessee restricts bonds to major maintenance projects greater than \$35,000.

By using capital improvement bonds to finance minor maintenance repairs, the state is acquiring debt for repairs that should be considered operating expenses. According to a State Treasurer's Office official, the state usually pays 1.6 times as much as the project cost when bonds are used to finance it. Therefore, a \$10,000 CIB-funded roof repair costs the state \$16,000. Furthermore, when the Adjutant General's Office is given capital improvement bonds for minor maintenance, other agencies may lose the opportunity to have their permanent improvement projects funded.

There are several reasons why using capital improvement bonds for minor maintenance projects is not the best solution to the Adjutant General's Office maintenance problems. First, using capital improvement bonds to fund operating expenses weakens the state's fiscal base by incurring unnecessary debt. Second, armory maintenance will continue to be a recurrent need. Thirty-seven (45%) of the 81 state-owned armories are more than 25 years old. Third, because CIB funding is unpredictable, planning for armory maintenance is difficult. For example, the Adjutant General's Office received no capital improvement bonds for renovations and improvements in 1988.

Adjutant General's Office officials state that part of the reason they have relied on CIB funds for armory maintenance is that the General Assembly has not approved budget requests for armory maintenance increases.

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## Recommendation

- 35 The Adjutant General's Office should continue seeking General Assembly approval to fund all minor maintenance projects from their operating budget so that capital improvement bonds are not used for minor maintenance projects.
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## Facility Inspections

Adjutant General Regulation (AGR) 210-1 requires the buildings and grounds section of the facilities management office to inspect all armories annually to assess the condition of the armories. The Council found that for the two fiscal years reviewed, armories were not inspected as required by regulation. Also, inspection information is not used to identify and prioritize maintenance needs.

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## Frequency of Inspections

The buildings and grounds section has not inspected all armories annually as required by AGR 210-1(17). In FY 87-88, buildings and grounds inspected 30 (37%) of the 81 state-maintained armories. For FY 88-89, buildings and grounds had conducted none of the required 81 inspections. However, an Army guard general, as a special project, did inspect 29 armories under his jurisdiction.

AGR 210-1(17) requires armory inspections to be conducted on a yearly basis. The regulation requires a representative of the Adjutant General's Office to inspect the armory's maintenance and security, and the condition of state property. The regulation has been interpreted by agency officials to assign the responsibility of the inspections to the buildings and grounds section.

Without annual inspections, the Adjutant General's Office cannot adequately document armory maintenance needs. Also, it cannot appropriately assess maintenance priorities if some needs are unreported.

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## Recommendation

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- 36 The Adjutant General's Office should ensure that all armories are inspected annually as required.
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### Deferred Maintenance List

In addition to reviewing the frequency of armory inspections, we examined how information gained from inspections is used. The buildings and grounds section does not use the annual armory inspections it does conduct to identify and prioritize maintenance needs. As a result, the section does not take advantage of what should be a valuable source of firsthand information on statewide maintenance needs.

A buildings and grounds official stated that the purpose of the annual inspections is to review the "aesthetics" of the armories, not identify maintenance needs. The inspections focus on housekeeping and appearance of the armories. Buildings and grounds' deferred maintenance list, on the other hand, is the official list of armory maintenance needs. As of February 1989, it listed \$2.3 million in needs, including repairs to heating systems and boilers, roof replacements, paving, grading and painting. This list is derived from work order requests from armory administrators, and battalion and brigade reports.

Although the inspection checklist includes categories for conditions of the roof and mechanical rooms, the buildings and grounds inspector noted major maintenance problems in only 8 (26%) of his 30 FY 87-88 inspections. Instead, he noted such problems as cobwebs in corners, tape on walls, dust on window ledges, and untidy offices. Also, three armories listed as needing roof replacements on the deferred maintenance list (Allendale, Jonesville, Walterboro) were rated satisfactory for the conditions of their roofs during the inspections.

AGR 210-1(19) requires that the annual inspections determine the condition of state property and if improvements are needed. Although the regulation does not specifically require inspections to be used for the deferred maintenance list, good management practice would ensure that maintenance needs be identified during the inspections and added to the list. For example, in Mississippi, the Adjutant General's Office has two full-time

armory inspectors who inventory facilities for damages and repairs needed. These inspection results are put on a long range maintenance list.

When armory inspections are used primarily to identify housekeeping problems, the buildings and grounds section has less information on which to base its maintenance funding decisions. With less information, they risk making poor decisions regarding maintenance priorities.

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## Recommendation

- 37 The Adjutant General's Office should ensure that armory inspections are used to identify maintenance needs for the deferred maintenance list.

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## Armory Rental Policies

South Carolina derives more income from armory rentals than eight other southeastern states that furnished information to the Audit Council, totalling approximately \$370,000 in FY 87-88. However, local armories and/or units have established and implemented policies for nonmilitary use of armories without adequate state oversight. As a result, there has been inadequate assurance that these policies are consistent or in the best interest of the state and the National Guard.

Adjutant General Regulation (AGR) 210-1 governs nonmilitary use of armories. Each armory manager is responsible for establishing policies and rental fees and for publishing them in an armory rental standard operating procedure (SOP). The SOP must include guidance in specified areas, and the rental fees are to provide for a reasonable profit. However, prior to March 1989, there was no requirement that the policies be reviewed or approved by the Adjutant General or the central administrative office. In Florida, Georgia, and Virginia, policies for local armory use must be approved by the Adjutant General.

Rental income has varied greatly among the 81 armories. For FY 87-88, income per armory ranged from \$0 to more than \$30,000. A review of 12 SOPs (a stratified random sample from armories with high, middle and low income) revealed both inconsistencies and problems. Some units' policies did not include all areas required by regulation. For example, one did not specify the rental rates and three did not specify the salary to be paid to the armory representative. It is appropriate that rates vary by location and facility; however, according to an official at one armory with a low rental rate, the armory has not changed its rate since approximately 1970.

Only 1 policy of 12 reviewed gave detailed guidance on lower rates offered to some categories of users, such as government agencies or charitable organizations. However, conversations with armory officials revealed that managers use discretion in varying the rates. Some armories rent for less than the established rate or for no charge to some organizations and encourage use of the armory by community groups. Others do not encourage use of their facilities and allow use only by those who pay established rates.

Armories are state property; they become totally state-owned over a 25-year period. The military use of armories takes up a limited portion of total use time available. Income from nonmilitary use is state funds and must be spent in accordance with AGR 37-2. Good business practice dictates that the property be managed to maximize income and recoup maintenance costs. In addition, the guard receives benefits through the civilian use of armories. Civilian use increases public awareness of the guard and of its positive role in their communities.

Without central oversight of armories' policies and practices, some armories may generate little or no income for the state or the National Guard. Inadequate rental income must either be made up from other sources, such as increased state appropriations, or the maintenance of the armories will suffer.

According to an Adjutant General's Office official, armories are encouraged to rent and also to make accommodations for government and charity groups when possible. Also, as of

March 1989, armory rental SOPs are required to be approved by the central administrative office.

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## Recommendations

- 38 The Adjutant General's Office should consider amending Adjutant General Regulation 210-1 to require annual review and approval of local armories' policies for nonmilitary use. Policies and rental income statistics should be reviewed annually to determine appropriate rental rates.
- 39 The Adjutant General's Office should consider amending Adjutant General Regulation 210-1 to establish consistent guidelines for categories of nonmilitary users of armories and rental rate allowances to be given to these groups.

# Benefits and Comparative Issues

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## Benefits

We reviewed the management of state resources allocated to benefits for guard members, including the state pension, workers' compensation insurance and the tuition assistance program. Problems noted with the pension and workers' compensation benefits suggest the need for a re-examination of resource allocation.

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### State Pension for the National Guard

Statutory provisions for the state pension for retired members of the National Guard should be re-examined. Unless the funding of the pension is changed to comply with principles of sound pension financing, the benefit may become a significant liability for the state. In addition, the use of state resources for a pension when guard members also earn a federal pension could be questioned.

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### Pension Financing

Guard members who complete 20 years of military service as specified in the South Carolina Code of Laws (§25-1-3210) are eligible for a state pension of \$50 to \$100 per month beginning at age 60. For FY 87-88 approximately 13% of the \$4.6 million in state funding for the guard was used to fund the state pension.

The state pension, which became effective in 1975, is administered by the Adjutant General's Office and funded on a pay-as-you-go basis. Each year the General Assembly appropriates enough to cover the payout for the coming year. The number of guard members eligible for the pension and the funding have steadily increased. From FY 83-84 to FY 87-88, the pension payout increased from \$368,379 to \$581,063, an average annual increase of more than 12%. During the same time, the number of pensioners increased from 356 to 576. By June 1989, 670 retired guard members were receiving pensions.

Under the pay-as-you-go method, state contributions required to meet the annual payout constantly increase. Under the level contribution method, recommended for actuarially sound pension financing, the state's contribution will be level or



declining, although the funding level is higher in the earlier years. In the long term, interest earned from investing the fund's assets lowers the required annual contribution.

North Carolina has converted the funding of its state pension for the guard from the pay-as-you-go method to the level contribution method. This state, with pension benefits identical to South Carolina's, paid more than \$2 million into its guard pension fund in 1987 when there were 700 pension recipients. In the future, however, interest earnings will lower the contribution.

South Carolina's other retirement systems are administered by South Carolina Retirement Systems of the Budget and Control Board and are funded on an actuarially sound basis. As recently as 1979, the state's judicial retirement system was converted from pay-as-you-go to the level contribution method. According to a retirement systems official, over half the annual contribution to the South Carolina Retirement System is from interest earned on fund investments.

If the pension is retained without a change to a sound funding method, the state might be unable to meet the liability for the benefit in the future. If the payout continues to increase at a rate of 12% a year, in 15 years, by the year 2004, the state would have to appropriate more than \$3.5 million to fund the pension.

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## Federal Pension Benefits

Guard members also receive a military pension and other military retirement benefits from the federal government at age 60. Federal retirement benefits, estimated by the Adjutant General's Office at \$11.2 million for South Carolina in FY 87-88, customarily range from \$165 to \$677 per month, depending on rank and length of service.

We could identify only four other states that offer a state pension for guard members in addition to the federal pension. Florida, which pays benefits only after 30 years of military service, and North Carolina, which has a benefit similar to South

Carolina's, were the only other southeastern states with a pension benefit.

Even with a change to a sound funding method, the portion of state National Guard resources consumed by the pension could be too high, considering that guard members receive federal benefits.

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## Pension Accounting and Reporting Requirements

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The state's financial liability for the National Guard pension has not been reported in the Adjutant General's Office annual financial statements or in the state's comprehensive annual financial report.

Governmental Accounting Standards Board (GASB) Statement No. 5, which became effective for FY 87-88, requires disclosure of the pension obligations of government entities that are legally responsible for contributing to public employee retirement systems. The purpose of the disclosure is to provide users with information needed to assess the funding status of the system, progress made in accumulating assets to pay benefits when due, and whether contributions are actuarially determined. According to a Comptroller General's Office official, the financial liability for the National Guard pension should be reported in the Adjutant General's Office financial statement. Materiality considerations would determine whether disclosure is also required in the state's consolidated financial report.

There may be problems with determining the state's liability for the National Guard pension. The GASB standard implies that an actuarial valuation is necessary for adequate reporting, while the state National Guard pension is funded yearly on the pay-as-you-go method. However, according to the standard, the absence of actuarially sound funding does not remove the employer's responsibility to properly disclose pension obligations.

Without the required disclosures, users of the pension system do not have adequate information to assess its performance or the potential liability for the state.

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## Recommendations

- 40 If the General Assembly wishes to continue the state pension for National Guard members, it may wish to consider converting pension funding to an actuarially sound method to be administered by the South Carolina Retirement Systems.
- 41 The Adjutant General's Office and the Comptroller General's Office should report the state National Guard pension liability in annual financial statements as required.

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## Workers' Compensation Insurance

The state provides workers' compensation benefits that overlap with federal benefits for injured guardsmen. Also, the Adjutant General's Office has not paid premiums for guard members as required.

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## Duplication in Coverage

The National Guard has both state and federal missions. The Governor can call members to active state duty when, for example, there is a weather emergency or civil disturbance. The Guard can also be called to active federal duty in wartime or for overseas training, under Title 10 of the United States Code. The Guard usually functions, in weekend drill and 15-day annual training exercises, under Title 32 of the United States Code. In South Carolina, benefits available to compensate guard members injured in the line of duty vary according to duty status, as summarized in the following table:

**Table 5.1: National Guard Injury Benefits**

Duty Status	Benefits
Active State Duty	State only
Active Federal (Title 10)	Federal only
Drill/Training (Title 32)	State and Federal

Source: South Carolina Code of Laws and Legislative Audit Council research.

Injuries to guard members are usually handled according to federal procedures. Injured guard members receive military medical care and may be eligible for incapacitation pay if they suffer an injury in the line of duty. The Army and Air Guard military personnel officers do not administer state workers' compensation benefits. Injuries are not routinely reported, as required by §42-19-10 of the South Carolina Code of Laws, to the South Carolina Workers' Compensation Commission. However, state claims may be filed by guard members. The following claims were made and benefits received in FY 87-88:

**Table 5.2: FY 87-88 Injury Claims and Benefits**

	Number of Claims	Amount Paid	
		Compensation	Medical
State	7	\$372,727	\$59,056 <sup>a</sup>
Federal	207	\$332,781	<sup>a,b</sup>

<sup>a</sup>State payment figures include benefits for full-time employees of the Adjutant General's Office.

<sup>b</sup>Cost data for military medical care is not available.

Source: Adjutant General's Office and State Workers' Compensation Fund.

State benefits for workers' compensation should not duplicate federal benefits available to members of the National Guard. Seven of eight other southeastern states that furnished information to us compensate guard members for injuries only when they are called to state active duty; they do not offer coverage that overlaps with or supplements federal benefits. As stated in the FY 88-89 Appropriation Act, "It is the intent of the General Assembly that federal and other funds shall be

expended before State General Funds, to the extent possible . . . ."

The receipt of federal benefits does not prevent guard members from filing state claims, and there are insufficient controls to ensure that they do not receive double benefits. For example, we identified one case in which an injured guard member received compensation for his lost civilian wages from both the state and federal governments for the period April through July 1988. He received nearly \$3,300 federal incapacitation pay in addition to more than \$2,700 state wage replacement benefits.

With the current overlapping coverage, the state may be required to reimburse the federal government for benefits provided. Military medical care received by injured guard members has been reimbursed by the state in three cases in the amount of \$48,045.

Officials at the Adjutant General's Office stated the intent of state workers' compensation benefits is to cover situations when federal benefits are inadequate, and the state should not reimburse the federal government for services rendered.

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## Premium Payment

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Prior to July 1989, the Adjutant General's Office did not pay any premiums billed for state workers' compensation coverage for members of the South Carolina National and State Guards. As a result, as of November 1989, the State Workers' Compensation Fund (State Fund), the insurer for state employees, carries as an unpaid balance more than \$2.3 million for National Guard premiums and \$113,000 for State Guard premiums for FY 85-86 through FY 89-90.

The State Fund computes workers' compensation premiums based on payroll and job classification information furnished by state agencies. Estimated premiums are corrected to "audited premiums" when the State Fund receives actual payroll data. National Guard members are paid by the federal government. The State Guard is a volunteer organization which serves as a second line reserve force in the event the National Guard is

unavailable. Its members are unpaid (premiums for volunteers are based on the number of volunteers covered).

The State Fund first billed the Adjutant General's Office for premiums for members of the National Guard in September 1985. Estimated premiums in the amount of \$300,000 and \$320,000 were billed for FY 85-86 and FY 86-87. The Adjutant General's office sent payroll information necessary to produce audited premiums in spring 1988. At this time, the State Fund computed audited premiums and billed the National Guard for previous years.

The Adjutant General's Office did not pay the premiums and did not request additional funds for workers' compensation in its annual budget request for FY 89-90. Agency officials stated they did not request funds for workers' compensation premiums because they believed such funds were allocated by the Budget and Control Board. At the initiative of the Board, partial funding was included in the FY 89-90 budget, and the Adjutant General's Office paid approximately \$1 million in summer 1989. However, outstanding premiums for National and State Guard coverage through FY 89-90 total more than \$2.4 million.

According to §42-7-75 of the South Carolina Code of Laws, all state agencies shall pay workers' compensation premiums as determined by the State Fund. Also, the state is liable for the claims of injured guard members, totalling more than \$1.5 million in losses for FY 85-86 through FY 87-88. By allowing the situation to continue, the Adjutant General's Office has not resolved questions and problems relating to state workers' compensation coverage and premiums.

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## National Guard Premiums

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Premiums for state worker's compensation coverage for National Guard members, determined by the State Fund in 1988, were based on incomplete information and may have been incorrect.

The State Fund determined premiums for the guard using the method used for other state employees. Because the guard did not furnish job classification information for the more than

15,000 guard members, the premium, estimated at \$983,000 for FY 88-89, was based on the Army Guard's federal payroll. The State Fund did not receive or include the Air Guard's payroll in premium determination. Also, the premiums were not adjusted to reflect federal benefits paid.

State workers' compensation premiums for the guard should be determined based on actuarial assessment of the actual risks, taking all circumstances of their coverage into account. However, according to the director of the State Fund, the National Guard is a unique organization subject to unpredictable risk of catastrophic loss. As a result, it is difficult to precisely determine the premium required to cover anticipated future losses. He stated it would be preferable to amend the law and cover both the National and the State Guard using a dollar-for-dollar reimbursement method. Losses would be covered by appropriation, if and when they occurred.

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## Recommendations

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- 42 The General Assembly may wish to consider statutory revision of state workers' compensation coverage for members of the National Guard to eliminate duplication and provisions that allow for reimbursement to the federal government for benefits provided.
  - 43 The General Assembly may wish to consider statutory revision of the method of payment for state workers' compensation coverage for the National and State Guard. Instead of assessing premiums to cover anticipated future losses, losses could be covered on a reimbursement basis. Past due premiums would have to be paid only to the extent that actual losses occur.
  - 44 In the absence of statutory change, we recommend:
    - a The State Workers' Compensation Fund should institute procedures to monitor National Guard cases routinely for federal benefits received;

- b The Adjutant General's Office should request funds to cover all premiums owed for National and State Guard workers' compensation coverage since FY 85-86, and should pursue clarification and resolution of questioned charges; and
- c The State Workers' Compensation Fund should review the premium for members of the National Guard to ensure that it is based on complete information and actual risk.

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## Tuition Assistance Program

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The South Carolina National Guard tuition assistance program was created by Act 199, Part II of 1979. The program provides qualified members of the South Carolina National Guard with tuition assistance grants of up to \$500 per academic year. The program's FY 88-89 budget of \$250,000 served 709 guard members. The purposes of the tuition assistance program are to encourage voluntary membership in the South Carolina National Guard, to improve the educational level of its members, and to benefit the state as a whole by improving the educational level of its guardsmen.

We conducted a 9% random sample of the 908 FY 88-89 tuition assistance applicants and found the tuition assistance program to be well-managed and in compliance with applicable laws and regulations.

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## Academic Requirements

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The tuition assistance program's standards for academic performance are minimal. Students can do poorly and continue to receive tuition assistance grants. Program regulations do not specifically address academic requirements for program participation.



South Carolina Adjutant General Regulation 621-1 states:

To maintain continued eligibility in the Tuition Assistance Program, a recipient must maintain the minimum standards of academic performance required by the educational institution attended.

Any student who is placed on academic probation because of poor academic performance can continue to receive tuition assistance. Also, any student who has been suspended from a school because of poor academic performance can enroll in another school and continue to receive tuition assistance.

The state of Louisiana does not allow students to receive tuition grants if they are placed on academic probation or academic suspension. Virginia requires students to maintain a cumulative grade point average equivalent to 2.00 on a 4.00 scale. South Carolina's regulations do not specifically address academic performance requirements. Students on academic probation, or, those who have been academically suspended from a school and enrolled in another school, can receive grants, while there may be more deserving students who cannot because of a lack of funds. Good management practice, however, would dictate that state resources be used where they are most effective.

Of the 908 applications for FY 88-89 tuition grants, 709 (78%) students received the grants. Given the competition for the grants, funding students who achieve a minimum standard of academic performance may represent the best use of these limited state resources.

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## Recommendation

- 45 The Adjutant General's Office should consider requiring a minimum standard of academic performance for guardsmen receiving tuition assistance grants.

## Comparative Issues

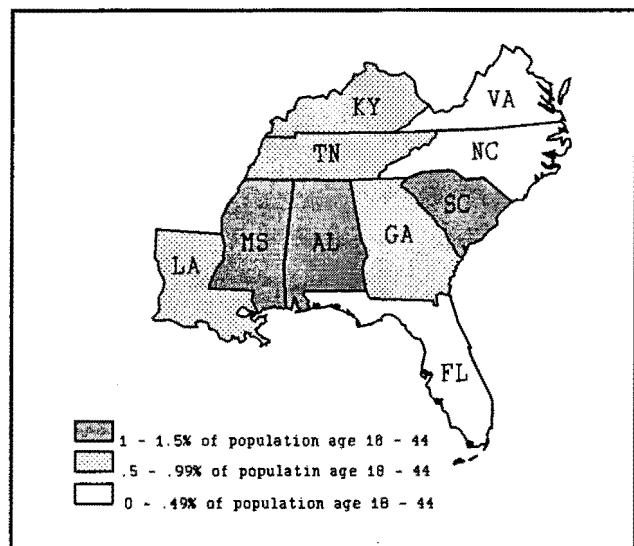
In response to the General Assembly's request to compare the resources of South Carolina's National Guard to those in neighboring states, we surveyed nine other southeastern states. (Survey data was not verified in all cases.) We also reviewed the South Carolina guard's performance on federal evaluation measures.

### Southeastern States' National Guard Resources

Results of the southeastern states survey and our related research are summarized in the accompanying graphs. The graphs were derived from data presented in Appendix B.

In general, the National Guard is strong in the southeast. Each state substantially meets or exceeds its authorized strength level, a recruitment goal. The number in the guard is as much as 1% of the population age 18 to 44 in Alabama, Mississippi and South Carolina (see Figure 5.1).

Figure 5.1: Guard Membership as  
a Percentage of Population 1987



Source: Appendix B, Southeastern States' National Guard Resources.

The National Guard is primarily supported by federal resources; in the southeast, state funds comprise an average of 4.7% of funds used to support the guard. Major categories of state expenditures include facilities construction, including required federal "match" funds, operations and maintenance, personnel, and benefits for guard members.

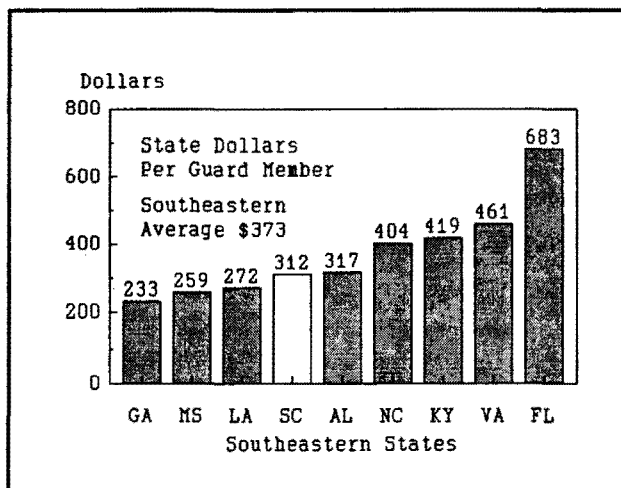
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### Comparisons of Resources

Results of our survey indicate that state resources for the National Guard in South Carolina are near but somewhat below the southeastern average. Perhaps the most useful comparison of state resources is state dollars per guard member, because it takes into account the relative strength of the guard in each state (see Graph 5.1). For FY 86-87 and FY 87-88, South Carolina, with state dollars per guard member of \$312, was approximately 16% lower than the southeastern average of \$373; 5 of the 8 states responding to the survey ranked higher than South Carolina. With a 2-year average of \$4.74 million, South Carolina was approximately 8% below the southeastern average of \$5.17 million in total state support. However, South Carolina received more state support than 5 of the other 8 states responding to the survey (see Graph 5.2).

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Graph 5.1: State Dollars per Guard Member, Two-Year Average FY 86-87, FY 87-88

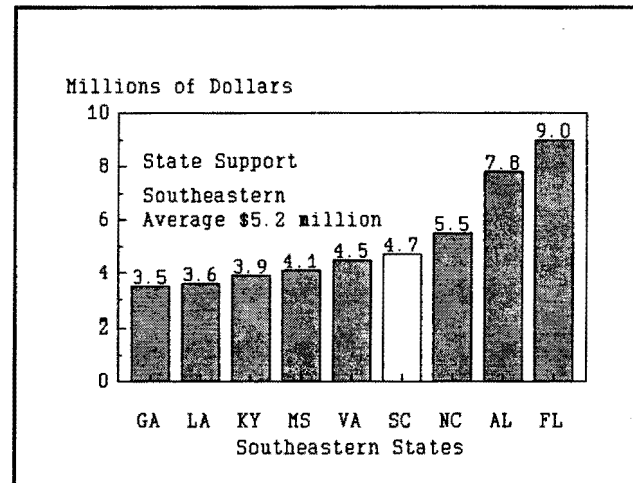


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Source: Appendix B, Southeastern States' National Guard Resources.

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Graph 5.2: State Support for the  
Guard, Two-Year Average  
FY 86-87, FY 87-88



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Source: Appendix B, Southeastern States' National Guard Resources.

It should be noted that these statistics do not explain differences in various categories of state expenditures for the guard. For example, some states may spend more for benefits for guard members (see p. 50), while others may spend more for facilities maintenance (see below).

Finally, statistics comparing expenditures for the National Guard in different states should be used with caution. Those we obtained are for two years only. State and federal resources vary from year to year, especially appropriations for construction.

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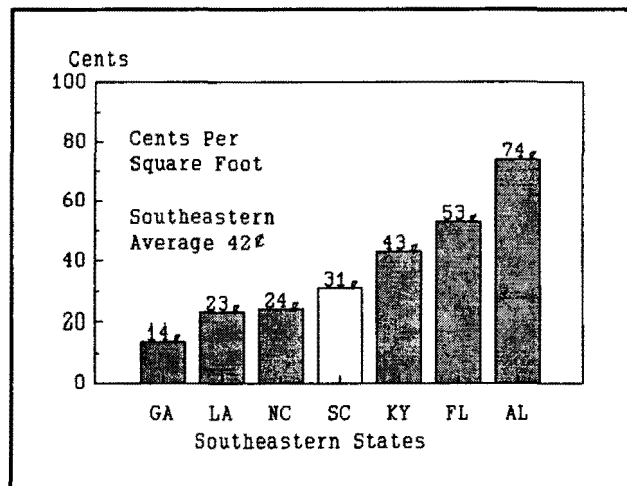
## Armory Maintenance Funding

We also reviewed funding of armory maintenance in six other southeastern states. In South Carolina, sources for armory maintenance include state appropriations, capital improvement bonds, city and county funds, armory rentals and federal funds. We chose to compare only state appropriations since officials at the Adjutant General's Office have expressed concerns in this area.

State appropriations for armory maintenance were found to vary widely in the southeast in FY 87-88. We compared funding to total armory square footage, total armories and total army guardsmen. The per square foot indicator is probably the measure most closely related to armory maintenance funding needs. Alabama is the highest funded in all three categories by a wide margin. The funding ranges from Georgia with 14¢ per square foot to Alabama with 74¢ per square foot. South Carolina's state appropriations, 31¢ per square foot, are below the southeastern average of 42¢. Appendix C details the armory maintenance comparison.

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**Graph 5.3: State Appropriated  
Cents Per Square Foot for Armory  
Maintenance, FY 87-88**



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Source: Appendix C, Southeastern States' Armory Maintenance Funding, FY 87-88.

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## Federal Reviews of the Guard

The South Carolina Army National Guard has been rated highly during federal reviews. We reviewed the National Guard Bureau's quarterly nationwide comparisons of state National Guards, the Composite Performance Profile (CPP), from the third quarter of 1987 through the second quarter of 1988. In its quarterly Composite Performance Profile, the National Guard Bureau reviews Army National Guards in the 50 states, the District of Columbia, and 3 territories. The CPP evaluates the states in over 40 categories, including financial management, reporting, retention, training, ammunition management, flight safety, and major construction. The CPP is intended to be a management tool, and a South Carolina guard official stated that it is used to set goals and identify problem areas.

For three of the four quarters reviewed, South Carolina ranked first in the CPP. For the fourth quarter, South Carolina was tied for second place in the ranking. Furthermore, for the third quarter of 1988, the National Guard Bureau commended South Carolina for achieving the first 100% rating in the 10-year history of the rating system.

We also reviewed the most recent Air Force inspections of the Air Guard. The inspectors, who reviewed operational readiness, unit and management effectiveness, gave the South Carolina Air Guard an excellent rating.

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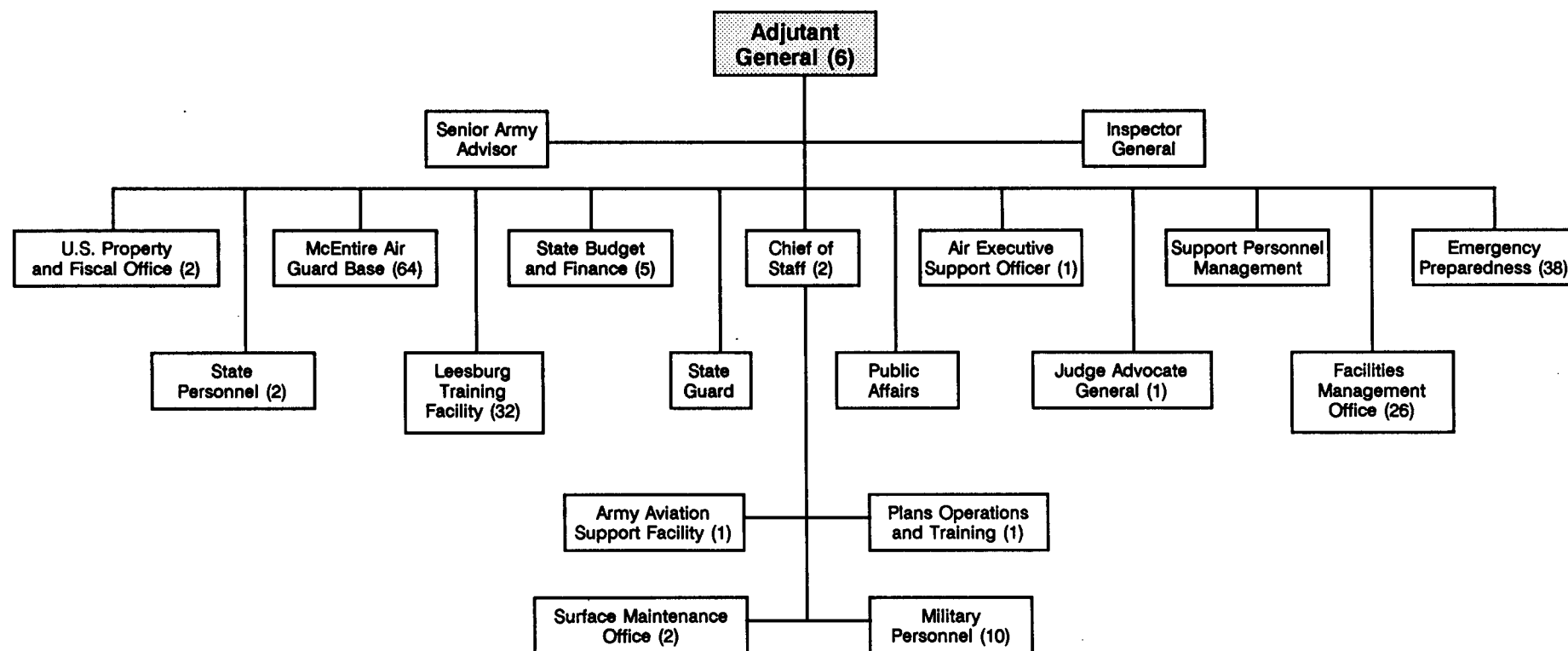
# Appendices

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# Office of the Adjutant General Organization Chart



Number of state employees indicated for each area.  
Total State FTEs: 193 (July 1989).

Source: Adjutant General's Office.

# Southeastern States' National Guard Resources FY 86-87, FY 87-88<sup>a</sup>

State	Guard Members	Percent of Population <sup>c</sup>	State Support <sup>d</sup> (Thousands)	Federal Support <sup>e</sup> (Thousands)	Total Support (Thousands)	State Dollars Per Guard Member	State Support/ Total Support
Alabama	24,560	1.44	\$7,774	\$153,989	\$161,763	\$317	4.8
Florida	13,223	.28	9,034	91,238	100,272	683	9.0
Georgia	14,938	.54	3,474	130,792	134,266	233	2.6
Kentucky	9,216	.59	3,866	57,556	61,422	419	6.3
Louisiana	13,273	.67	3,607	84,504	88,111	272	4.1
Mississippi	15,805	1.47	4,093	149,661	153,754	259	2.7
North Carolina	13,539	.48	5,473	89,866	95,339	404	5.7
South Carolina	15,181	1.00	4,742	86,078	90,820	312	5.2
Tennessee <sup>b</sup>	18,432	.89	•	140,368	•	•	•
Virginia	9,681	.33	4,466	74,082	78,548	461	5.7
SE Average	14,785	.77%	\$5,170	\$105,813	\$110,983	\$373	4.7%

<sup>a</sup>State data for state fiscal year, federal data for federal fiscal year. Two-year average.

<sup>b</sup>Tennessee did not furnish state funding information.

<sup>c</sup>Population age 18 to 44, 1987.

<sup>d</sup>State support is comprised of state general funds and other state funds, including capital expenditures.

<sup>e</sup>Federal National Guard Bureau funding; other federal sources omitted.

Source: National Guard Bureau, United States Census Bureau, and Audit Council survey of southeastern states.

# State Appropriations for Southeastern States' Armory Maintenance, FY 87-88

State	Army Guard	State Funds <sup>a</sup>	Armory Square Feet	Number of Armories	Average Men Per Armory	Square Feet Per Man	Square Feet Per Armory	Funds Per Man	Funds Per Armory	Funds Per Square Feet
Alabama	21,338	\$1,770,025	2,400,812	148	144	113	16,222	\$82.95	\$11,960	\$.74
Florida	11,908	548,939	1,043,000	67	178	88	15,568	46.10	8,193	.53
Georgia	11,578	146,000	1,071,931	81	143	93	13,234	12.61	1,802	.14
Kentucky	7,851	344,500	795,048	46	171	101	17,284	43.88	7,489	.43
Louisiana	12,010	208,800	919,335	79	152	77	11,637	17.39	2,643	.23
North Carolina	12,045	374,290	1,551,510	102	118	129	15,211	31.07	3,670	.24
South Carolina	13,902	416,488	1,334,382	81	172	96	16,474	29.96	5,142	.31
SE Average	12,947	\$544,149	1,302,288	86	150	101	15,092	\$42.03	\$6,306	\$.42

<sup>a</sup>Includes only state appropriations for armory maintenance, not other types of state funds such as capital improvement bonds or funds appropriated for armory operations.

Source: Audit Council survey of southeastern states.

# **Adjutant General's Office Comments**

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**The State of South Carolina**  
**Military Department**



**Office of the Adjutant General**

**T. ESTON MARCHANT**  
**MAJOR GENERAL**  
**THE ADJUTANT GENERAL**

**1 NATIONAL GUARD ROAD**  
**COLUMBIA, S. C. 29201-4766**

**December 18, 1989**

**Honorable George L. Schroeder**  
**Director, Legislative Audit Council**  
**400 Gervais Street**  
**Columbia, South Carolina 29201**

**Dear Mr. Schroeder:**

**Thank you for the opportunity to provide comments for inclusion in the published report covering your management review of the Office of the Adjutant General.**

**Such response, limited to not more than ten pages as you requested, is enclosed herewith.**

**Sincerely,**

A handwritten signature in black ink, appearing to read "T. Eston Marchant", with a long horizontal flourish extending to the right.

**T. ESTON MARCHANT**  
**Major General, SCARNG**  
**The Adjutant General**

**Enclosure**

Two points about this audit must be understood by any person who undertakes to appreciate it. The first is that this is an audit of only four percent of the taxpayers' dollars for which this office is accountable and responsible. The second is that none of the auditors possess any experience or credentials in military management.

The Legislative Audit Council (LAC) commences its report, and coincidentally the first of its "Major Findings," in the following fashion:

The South Carolina National Guard, administered by the Adjutant General, is a primarily federal entity with substantial economic impact in the state. Federal expenditures for the Guard in South Carolina for FY 87-88 have been estimated by the Adjutant General's Office at more than \$136 million while state expenditures were \$4.6 million. . . . (emphasis added)

We reviewed only the management of state resources. . . . (emphasis in original).

Thus, this is an audit of only four percent of this office's financial responsibilities. That ninety-six percent of this office's budget is from federal sources, in and of itself, evidences our compliance with the mandate of the General Assembly contained in Section 11-9-125 of the Code of Laws and cited by LAC, to wit, "Federal and other funds must be expended before funds appropriated from the general fund of the State, to the extent possible. . . ." Quite obviously, a state agency entrusted annually with 136 million federal dollars is scrutinized regularly by federal auditors and other federal officers. We hasten to add that such auditors and other officers are uniquely qualified to gauge the operations of the military, which is unique in so many respects as compared to other functions of state government. In the very words of LAC taken from its report:

The South Carolina Army National Guard has been rated highly during federal reviews. We reviewed the National Guard Bureau's quarterly nationwide comparisons of state National Guards, the Composite Performance Profile (CPP), from the third quarter of 1987 through the second quarter of 1988. In its quarterly Composite Performance Profile, the National Guard Bureau reviews Army National Guards in the 50 states, the District of Columbia, and 3 territories. The CPP evaluates the states in over 40 categories, including financial management, reporting, retention, training, ammunition management, flight safety, and major construction. The CPP is intended to be a management tool, and a South Carolina guard official stated that it is used to set goals and identify problem areas. . . . (emphasis added)

For three of the four quarters reviewed, South Carolina

ranked first in the CPP. For the fourth quarter, South Carolina was tied for second place in the ranking. Furthermore, for the third quarter of 1988, the National Guard Bureau commended South Carolina for achieving the first 100% rating in the 10-year history of the rating system.

We also reviewed the most recent Air Force inspections of the Air Guard. The inspectors, who reviewed operational readiness, unit and management effectiveness, gave the South Carolina Air Guard an excellent rating.

"Financial Management" is the subject of Chapter Two of LAC's report. The federal opinion of this office's performance notwithstanding, approximately thirty percent of LAC's recommendations are in this area. But, one-third of those recommendations are directed to other entities of state government on subjects about which this office exercises no control, and it seems most unfair to include them in a report on this office.

A brief reference to an event contemporaneous with LAC's audit is appropriate for two reasons. Hurricane Hugo, the greatest natural disaster in this state's history, resulting in the largest ever mobilization of the National Guard by its Commander-in-Chief, the Governor, was a first priority of this office. We regret that for a period of time the auditors could not be given our first attention, and we hope and trust that such inattention did not subjectively affect their findings. But what is truly regretted is that LAC did not see fit to critique the Guard's conduct of its assigned missions during Operation Hugo. We firmly believe that after all is said and done it is always the bottom line which is the final yard stick. As regretful an event as it was, and remains, Hugo provided the opportunity to scrutinize this department in its support role to the Governor and all of the people of South Carolina. We regret this opportunity for review was not seized.

Just as Hurricane Hugo provided LAC with a real opportunity to review the Army National Guard, Gunsmoke, also contemporaneous with the audit, provided a similar opportunity to review the Air National Guard. In worldwide competition with the Active Air Force and with the Air Force Reserve involving proficiency with fighter jets, we were again number one on the bottom line. We trust this confirms the decision of the federal government to make South Carolina the first state to receive the F-16 Fighting Falcon.

This office takes issue with the after-the-fact observations of LAC concerning the construction of its headquarters building. Its observations are eye-catching, a fact obviously known to the writers of the report who chose to make it the first item. First, all of its recommendations on this subject are directed to other entities of state government, yet LAC chooses to include such in a report on this office. The decision to construct this building via lease-purchase was made by the General Assembly, after receiving positive recommen-

dations from the State Budget and Control Board, Joint Bond Review Committee, Senate Finance Committee and House Ways and Means Committee. We continue to support this decision because it presented the best alternative when the decision was made in 1986. It is beyond dispute that at the time the necessity for a new headquarters was critical due primarily to space limitations within the area of the Rembert C. Dennis Building assigned to the Military Department and the need for that space by other state agencies. As opposed to a lease, in 20 years the State will own a purposeful structure with a useful expectancy of 50 years located within the military complex on Bluff Road. It is our understanding that the cost to the state for our purchase arrangement is \$9.01 per square foot, and that at the end of the lease period the building will totally belong to the state for \$1.00. It is our further understanding that there are numerous other state agencies which have paid and are paying more per square foot, with no asset whatsoever for the state at the end of the lease period; this would include the Legislative Audit Council itself -- having paid \$13.00 per square foot for 12 years in the NCNB Tower, and now paying \$12.00 per square foot in a new building for a 5 year lease period (at the end of which the state will have to negotiate a new lease and still have no interest in the building). For all these reasons, and more, we submit that it is unfair, uncalled for, and without basis in fact, that LAC include this finding in its report.

Irregularities pertaining to construction of a Bachelor Officers' Quarters at McEntire ANG Base are acknowledged. However, the irregularities were discovered, highlighted, and addressed to the State Engineer by this office in January 1988 upon assignment of a new project officer. All irregularities were noted and solutions proposed. A copy of this report was provided to LAC. The original intention was to construct the shell of the building and have a National Guard Utility Detachment complete it during their annual training period, which is a realistic and valid use of Engineer Guardsmen. The building has been completed, inspected, and meets standard building codes. Of numerous other construction projects, LAC reports no failure to follow the Consolidated Procurement Code.

Every effort is made by this agency to secure maximum federal funding for armory construction projects. The National Guard Bureau computes the amount of federal participation based on a pre-determined square footage allowance. The specified federal share cannot be exceeded except in cases where substituted materials and equipment meet the applicable federal specifications or where items that exceed the criteria have been previously approved. Changes not meeting these requirements must be supported with state funds.

In the case of the Mullins armory there had been no change in the criteria originally approved by the National Guard Bureau, and neither of the other conditions applied. Therefore, there was no justification to request increased federal funding.



The increase in cost at the Moncks Corner armory resulted from the local Public Works Commission's refusal to let the contractor perform sewer work, and their insistence that it be performed by them at a considerably higher cost. The National Guard Bureau would not have been receptive to paying this additional cost.

Neither did the small change order at the Clinton armory meet any of the criteria for increased federal funding.

Be assured that every opportunity is taken to acquire maximum federal funding for each armory project. When change orders become necessary, they are discussed telephonically with the National Guard Bureau. If we are told that federal funds will not be approved, change orders are not submitted. This office will ensure in the future that files are properly documented to reflect that federal assistance is requested for each approved contract change order.

Relative to LAC's observations concerning "Subleasing of Parking Spaces," it should be known that in 1951 the state acquired the 25 acres that have become the Military Complex on Bluff Road. This was the purpose for which this real estate was acquired, and it has historically housed only and been managed as a coherent entity by the Military Department of South Carolina. In 1987 the Budget and Control Board, on behalf of the State, leased 5 of these acres for the purpose of construction of the headquarters building and, upon completion of construction, this land with improvements was returned via lease-purchase to the State. It remains a part of the coherent Military Complex bounded on one side by a public road and on another by the parking lot for the armory. It is interesting to note that for years the parking lot at the Columbia armory has been leased for University of South Carolina football games to the Boy Scouts who, in turn, sublease, on a first come-first served basis, the parking spaces as a fund raising activity. It is equally interesting that LAC takes no exception to this activity.

The proximity of the headquarters building to Williams-Brice Stadium posed identical problems concerning its security during football games that had previously confronted the armory and been solved by the Boy Scouts. The HQ Morale Support Fund is nothing more, nor less, than an association of all employees, state, federal and military, of this headquarters. As a fund raiser this association offered to manage the headquarters building parking lot during football games. This offer was seized by management as an ideal solution to its concerns about security. The association remits a portion of the revenue it realizes to the Armory Maintenance Fund, which is managed as public monies. The balance supports its activities.

We firmly believe this arrangement to be the ideal solution for the problem all properties, both public and private, in proximity to Williams-Brice Stadium suffer during football season. To say that the employees are receiving a "perquisite" is stretching the term beyond

realistic limits. They are providing a mutually beneficial service, as are the Boy Scouts. We will, however, seek the approval of the Budget and Control Board, and if it is not forthcoming the operation will cease. An alternative, which will involve costs, will of necessity have to be a part of non-approval because of the absolute necessity for security of the headquarters building and grounds.

It is particularly gratifying to note that there is only one recommendation pertaining to the Emergency Preparedness Division. The Division will certainly consider implementing in fiscal year 1991 an allocation system for emergency management assistance funds which will include, among other factors, disaster risk, population and performance.

We agree that armory operations funds should be included in the agency's financial program. The recent employment of a CPA as our Financial Manager and the recent acquisition of additional computer equipment will enable us to move forward in this area.

We do have a concern, however, about LAC's discussion regarding the redistribution of funds among armory accounts. As indicated, only 45% of this funding is from state appropriations. Fifty-five percent is from other sources, primarily armory rentals. If rental income is redistributed, it will kill the incentive for armories with high rentals to continue this practice. Some funding is from city and county contributions to local armories. Certainly it would not be appropriate to redistribute these funds to other armories. As pointed out in the report, the 92 armory accounts, at the end of FY 87-88, had an average balance of \$1,858.49. Such is not an excessive balance and is needed to pay for contractual services early in the new fiscal year. Appropriated funds are not distributed to armories with high rentals.

A comprehensive accounting procedures manual is in the process of development.

We acknowledge that strengthening is needed in documentation of personnel files to reflect that new employees meet minimum training and experience requirements. This will be accomplished. However, we would hasten to point out that we feel the problem is primarily inadequate documentation of files rather than lack of required qualifications.

Relative to LAC's observations titled "Conflict of Interest," attention is invited to its opening, "An appearance of a conflict. . .", and to the third paragraph, "Documentation in the employee's personnel file did not indicate that appropriate steps were taken to ensure that a conflict of interest did not exist." (emphasis added) The report correctly indicates that the employment of the two individuals is not prohibited by state nepotism provisions. We have carefully researched the matter and find no evidence of any improprieties. Furthermore, we felt we had provided LAC documentation

supporting the fact that personnel actions had been signed by either The Adjutant General or the Deputy Adjutant General, and that the individual met the training and experience requirements for the position. However, the point of the recommendation is well-taken, and we will ensure that the personnel director does not handle personnel matters involving the Director of Engineering.

As reflected in LAC's report, the matter of unauthorized dual compensation to a former employee was handled promptly when brought to our attention.

Supervisors will be required to conduct a thorough audit of time and attendance records of employees alleged to have not taken appropriate leave when on military duty, or to have used in excess of authorized military leave. Those verified to have received dual compensation will be required to either forfeit leave or pay in the current fiscal year. We have been unable to accomplish this because of the confidentiality of LAC's draft report and a lack of knowledge of the days in dispute. We are confident, however, that the \$3,800 figure is excessive. Time and attendance accounting procedures will be strengthened.

Procedures will be implemented to ensure that temporaries are not employed longer than six months. Four of the six referred to were employed for only one pay period past six months. Also, it must be noted that the period covered is almost three years.

We will ensure that temporaries employed in classified positions meet minimum training and experience requirements.

The limited practice of contracting with individuals for specific jobs will be discontinued except for small contractors such as electricians, plumbers, brick masons, etc.

The Adjutant General is firmly committed to ensuring equal opportunity for all personnel. Some improvement is reflected in the year October 1, 1988, to September 30, 1989. Furthermore, during this period an equal opportunity and affirmative action statement has been published, a letter has been forwarded to supervisors emphasizing minority hiring, and an affirmative actions workshop has been scheduled for managers and supervisors.

Management actions are underway to improve the planning of maintenance projects, to include the development of criteria for assignment of priorities. We have contacted the states mentioned and initiated a dialogue to determine if we can apply some of their procedures. We have established a Facilities Review Board for federal sites at McEntire, Leesburg and Clarks Hill, and will institute a staff study to do the same for armories.

The recent increase in staff (federally funded) will facilitate the process of improving the planning and management of maintenance

projects. Also, a scheduled, comprehensive inspection of facilities is in process of being accomplished, and a data base is being built, which will assist in maintenance management and establishment of priorities.

LAC's comments imply that some small projects are not completed in a timely manner. This is misleading. In our quest for maximum federal funding for all projects, it is our policy to design and open projects for needed repairs pending the possibility of federal support. Excess federal funds from other projects are oftentimes made available on short notice, and only if projects are designed and approved. Therefore, the fact that a project has been open for several months does not necessarily mean that work is not being pursued in a timely manner.

We do concur in the recommendation that materials for small projects be consolidated and purchased in bulk when practicable. Such guidance has been given to appropriate personnel and will be monitored for compliance.

Regarding the professional staff, at least four employees of the Facilities Management Office are qualified to be accredited as professional engineers. We are in the process of establishing the necessary affiliations to obtain these designations.

Again, we feel the Director of Engineering meets the required qualifications for his position. The position requires "a bachelors degree in engineering and 3 years experience in buildings and grounds maintenance, or a bachelor's degree and 7 years construction and maintenance experience, of which 3 years must have been in a supervisory capacity." He has a bachelor's degree, not in engineering, but meets the required levels of construction, maintenance and supervisory experience. The Division of Human Resource Management will be requested to review this matter. If it is their decision that a waiver is required, such request will be promptly submitted.

The recent authorization of additional federally funded employees and the acquisition of ADP equipment will enable us to more effectively record expenditure information and maintain an automated information management system for maintenance.

Assuredly, the Office of The Adjutant General will continue to seek funding in the general operating budget for minor maintenance projects at armories. We have recognized that CIB funding is inappropriate and not intended for such purposes. However, when faced with the possibility of allowing our armories to deteriorate, we have requested and gladly accepted bond funding for minor repairs and upgrades in the absence of general appropriations funding, which funding has been requested for each fiscal year.

The annual inspection of each facility has been an almost impossible task due to the lack of sufficient manning. However, with

the increase in manning in the Facilities Management Office, we are moving forward in this area. Such inspections, as pointed out to LAC, will include collection of information to establish a data base for HVAC systems, installed equipment, etc. as well as deferred maintenance requirements. It will also enable us to develop a more accurate system of prioritization of maintenance needs. Our goal is to obtain adequate funding from the General Assembly for the armory maintenance program, thus enabling us to establish a preventive maintenance program. Because of inadequate funding, we are forced to respond to emergency repairs and upgrades, which makes it difficult to establish and maintain an effective system of programming and prioritization.

We concur that review and approval of armory rental SOPs should be accomplished at state level. Such procedure was implemented with the publication of a revised Adjutant General regulation in March 1989. Furthermore, consideration is being given to establishing guidelines for armory rental rates.

To suggest eliminating the pension incentive authorized by the General Assembly would be a breach of contract with all retired and current members of the Guard, and would involve catastrophic consequences. This benefit has aided us immeasurably in meeting strength and retention goals. We will be happy to work with the General Assembly in establishing a more actuarially sound method of financing, and with the Comptroller General's Office regarding reporting of the pension liability in annual financial statements.

Recognizing a need some months ago, this office constituted an internal committee to study and make recommendations concerning workers' compensation coverage for National Guard members in coordination with the State Workers' Compensation Fund. This committee has submitted its work product to the State Fund, where the matter is pending.

Probable conclusions of this joint agency effort will include recommendations to the General Assembly. Most deficiencies under current law are correctable with better communication between this office and the State Fund. For example, the State Fund advises that under current law it may consider federal incapacitation pay in computing state wage replacement benefits. It is probable that a failure to communicate is the cause of the isolated double payment example cited by LAC. Similarly, this office was unaware of any reimbursement by the State Fund to the federal government until months after the fact. When it was learned, independent action was initiated by this agency toward a solution with appropriate federal officials, and such solution was obtained.

We concur that changes are needed in the manner and method that Workers' Compensation premiums are computed for the National Guard. The director of the State Fund correctly describes the National Guard as a "unique organization" for this purpose. The 1985 legislative changes in the method of computing premiums for all clients of the

State Fund has resulted in unrealistic premiums being assessed of this office. All monies appropriated to this office for premiums have been dispersed to the State Fund, and we accept LAC's advice to "pursue clarification and resolution of questioned charges." Further, however, we resent the implication that we have ignored the matter, even to the extent of not dispersing in a timely fashion funds appropriated to us for premiums by the General Assembly during the budget process. To state the obvious, this entity of state government can only "pay" to another entity of state government that sum which has been appropriated to it by those who authorize the state budget.

We are gratified to note that LAC found the Tuition Assistance Program to be well-managed and in compliance with laws and regulations. Our regulation has been changed to require a cumulative grade point ratio of 2.0 on a 4.0 scale for continued assistance.

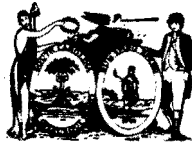
While comparative statistics developed by LAC reflect state resources for the National Guard in South Carolina to be 8% to 16% below the southeastern average, it must be pointed out that they are based on state general funds and capital expenditures. Capital expenditures vary greatly among states and on a year-to-year basis. It would be more meaningful and would more accurately portray recurring state support of the National Guard if comparative computations were based on general fund appropriations only. However, the salient fact remains that South Carolina is below the national average in state resources for the National Guard.

In conclusion, this agency appreciates the work of the Legislative Audit Council. We feel the audit has affirmed the effective and efficient management of the Military Department and the statewide National Guard program by the Adjutant General. The audit points out, as would be expected, areas in which improvements are needed in management and accounting controls. In such instances appropriate corrective measures will be implemented. The audit does not disclose any illegal acts, fraud, theft or intentional disregard of state or federal laws or regulations. This is particularly gratifying when considering the magnitude of the National Guard program in South Carolina -- 15,500 National Guard members, 82 armories, some 20 additional locations, and a combined state and federal budget of approximately \$142 million. We look forward to continuing to work with all other entities of state government to the end that the National Guard of South Carolina continues as the best program measured by all standards within the United States, its territories and the District of Columbia.

# **Division of General Services Comments**

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STATE OF SOUTH CAROLINA  
**State Budget and Control Board**  
DIVISION OF GENERAL SERVICES



CARROLL A. CAMPBELL, JR., CHAIRMAN  
GOVERNOR

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ROBERT N. McLELLAN  
CHAIRMAN, WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.  
EXECUTIVE DIRECTOR

December 15, 1989

Mr. George L. Schroeder, Director  
Legislative Audit Council  
400 Gervais Street  
Columbia, S.C. 29201

Dear Mr. Schroeder:

On behalf of the Division of General Services we wish to thank you for the opportunity to respond to the audit report on the Office of the Adjutant General. We wish to comment on certain sections of the report.

On Pages 8-9 of Chapter 2 of the report, it is noted that "there is a lack of accountability for the decisions made regarding the [construction] plans." Additionally, the report indicates that the State Engineer's Office "did not review the preliminary plans" and that "no one responsible for representing the state's interests is able to verify that early construction met building code requirements." Finally, the conclusion is drawn that "it is unclear that the plans were satisfactory to the state."

The impression left by these statements is incorrect. In the first place, the developer retained the services of an architect for the project. The architect is bound by the canons and ethics of his profession to assure that all building code requirements are met. This very significant dimension of accountability is buttressed by the additional requirement that City of Columbia building officials also had to review the construction to ascertain that codes were met and that the building construction achieved required building standards before issuing a certificate of occupancy. Unlike the normal State construction project the Adjutant General's Building had to respond to and meet two review processes. Finally, the attached letter of Mr. John Bowman of the State Engineer's Office certifies State officials did determine that the plans were satisfactory to the State. Mr. Bowman also reviewed the work during its construction to assure that building codes were met.

The final paragraph of this same section states further that "because construction began before plans were final, there was a greater risk that changes which could result in time delays would have to be made." Since the building was completed on time, this seems to be irrelevant. As a matter of practical reality, there is no building project anywhere that is not exposed to



Mr. George L. Schroeder  
December 15, 1989  
Page 2

the risk of time delays. Delaying construction until the plans were final may have caused a delay, whereas the actual operating methods used in this instance did not. The real question is whether the State provided adequate safeguards to protect itself in the event of delays not caused by its own actions. This was done, and if delays had occurred there would have been no additional cost to the State.

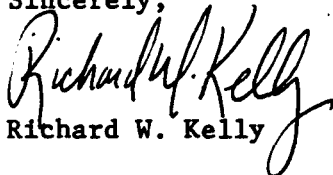
In our opinion, the report should have reflected more accurately the true degree of accountability that prevailed throughout this project. There is no indication at this point that the developer's performance was inadequate, and we feel that there is substantial evidence that the Division of General Services provided safeguards throughout to assure accountability.

Recommendation 3 on Page 10 states that "the Division of General Services should develop and implement a policy requiring architects to write all future lease purchase proposals and specifications." As the report indicates, it is now already a standard procedure for an architect to assist in the development of technical specifications of the buildings and land improvements for a lease-purchase proposal. As a matter of fact, we routinely utilize the services of various professionals in the drafting of highly specialized requests for proposals of this type.

As a point of clarification with reference to the third paragraph on Page 8, the Division of General Services was the only component of the Budget and Control Board that was involved in this project. The Office of Property Management and the State Engineer's Office are sections of that Division.

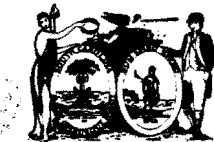
Thank you for your consideration of these observations.

Sincerely,

  
Richard W. Kelly

Attachment

STATE OF SOUTH CAROLINA  
**State Budget and Control Board**  
DIVISION OF GENERAL SERVICES



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MEMORANDUM

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CHAIRMAN, SENATE FINANCE COMMITTEE

ROBERT N. McLELLAN  
CHAIRMAN, WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.  
EXECUTIVE DIRECTOR

To: File

From: John D. Bowman, Project Manager  
State Engineer's Office

Date: December 15, 1989

Re: Adjutant General Building

As representative for General Services on the construction of the Adjutant General's Office Building project, I would like to comment on the IAC report concerning the State Engineer's Office involvement in this project.

My involvement began on or about May 5, 1987, when final plans were received for review and comments. I considered my role on this project to be similar to the role I would have on any state construction project. My typical role is to assist the state agency in insuring compliance with applicable codes, regulations, laws and project scope requirements through the document review and the field monitoring process.

On May 20, 1987, I attended a meeting with representatives from the developer, Adjutant General's Office and Property Management to discuss among other concerns my review comments.

On May 20, 1987, I met with Mr. Buddy Player, architect for the developers, to review my comments in detail. Over the next several months, the architect, through changes in the drawings and/or other project related transmittals (shop drawings, letters, etc.), assured this office that requested changes would be incorporated to meet code and other construction related concerns.

Although I did perform periodic inspections, I cannot verify that all construction was performed in accordance with plans and specifications. On the other hand, I have no reason to think that the building is not built in accordance with the plans and specifications. As in similar state projects, it is normally the role of the architect to assure full compliance with contract documents.

JAY A. FLANAGAN, P.E.  
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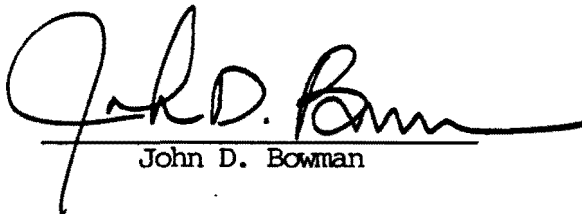
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Memo to File  
December 15, 1989  
Page 2

I have copies of as-built drawings, letters, manufacturer's literature and other documents which provides me full assurance that the plans and subsequent construction are satisfactory to the state. I feel that life/safety and energy concerns for this building are as good as and in many ways better than other state owned and/or operated facilities.

Respectfully submitted,



John D. Bowman



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# State Workers' Compensation Fund Comments

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*[The State Fund reviewed the section of the audit dealing with workers' compensation (pp. 53-58) and elected not to comment.]*

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